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TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1994

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RINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

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PART 5

GENERAL SERVICES ADMINISTRATION

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TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR 1994

TUESDAY, FEBRUARY 16, 1993.

GENERAL SERVICES ADMINISTRATION

PUBLIC BUILDINGS SERVICE

WITNESSES

P. GERALD THACKER, COMMISSIONER
DEBORAH J. SCHILLING, DEPUTY CONTROLLER
DAVID L. BIBB, ASSISTANT COMMISSIONER FOR PLANNING
JOHN J. LANDERS, ASSISTANT COMMISSIONER FOR GOVERNMENTWIDE REAL PROPERTY RELATIONS
JAMES A. WILLIAMS, ASSISTANT COMMISSIONER FOR INFORMATION SYSTEMS
JAMES STEELE, ASSISTANT COMMISSIONER FOR REAL PROPERTY MANAGEMENT AND SAFETY
BRIAN K. POLLY, ASSISTANT COMMISSIONER FOR PROCUREMENT
ROBERT J. DiLUCHIO, ASSISTANT COMMISSIONER FOR REAL PROPERTY DEVELOPMENT
GARRETT J. De YULIA, ASSISTANT COMMISSIONER FOR PHYSICAL SECURITY AND LAW ENFORCEMENT
WOLFGANG J. ZOELLNER, ACTING REGIONAL ADMINISTRATOR, REGION 9
WILLIAM B. EARLY, ACTING CHIEF FINANCIAL OFFICER
DENNIS FISCHER, ACTING ADMINISTRATOR
TOM SHERMAN, ASSISTANT REGIONAL ADMINISTRATOR, NATIONAL CAPITAL REGION

INTRODUCTION AND COMMITTEES AGENDA

Mr. HOYER. I apologize for my lateness. The President had a number of good things to say about how he was getting this country moving again and how I am sure we will all be pleased to participate with him.

I very much appreciate the acting administrator, Mr. Fischer, being with us this morning. I understand you will be with us for a short period of time and then Mr. Thacker will take over and give us the scoop.

Let me tell you what we are doing. Briefly, we are trying to get an overview of some of the thorny problems that confront this Committee. Not so much in a budget sense, although they impact greatly on the budget, but in a sense of the policies we are applying. We want to look at issues such as revenue foregone and how that has worked, the IRS and its computer problems, and today, one of the major things that confronts this Committee: the issue of

how we purchase our capital assets, how we account for them, how we score it, what is most beneficial to the taxpayer as opposed to what is most beneficial to a budget scoring concept. I want to take an opportunity today to look at that issue for the Committee so that when we move down the pike and we consider your specific capital suggestions, that we have, this Committee will have a better understanding of the financing options available to us.

I notice that Mr. Thacker's statement, which I have read, is going to be useful. You speak of the overall concept of how we finance our buildings and how many we have done in 1993, and that is going to be very useful. However, I would also like to get into not necessarily any policy judgments as to what is right or wrong, but explanations of what is, in fact, the situation as it relates to options available to us.

Mr. Fischer, would you like to make any comments and if so, we would be glad to hear from you. However, right now I would like to recognize Mr. Lightfoot.

Mr. LIGHTFOOT. Just a brief one, Mr. Chairman. I think this is a very important hearing and I compliment you on calling it. It is important, I think that we take a look at the mix of purchases and leases as we are facing tighter constraints budgetarily, and I suspect that will continue into the future in how we wisely use the funds that are available, and as we see, new technology is coming on line too, the fact that there is a potential now I think to relocate out of some very expensive lease rate areas into areas of cheaper rents and at the same time in essence give some of those federal employees a raise by moving them into an area where their cost of living is less.

So there are a lot of options I think are available and what we determine here is probably going to be the policy we follow for what, the next decade anyway, or maybe longer. So, Mr. Chairman, again, I appreciate you doing this. I think it is a very worthwhile exercise we are having here today I thank you gentlemen for coming and I look forward to hearing your testimony.

Mr. HOYER. Mr. Fischer.

STATEMENT OF MR. FISCHER

Mr. FISCHER. Mr. Chairman, Mr. Lightfoot and Members of the Committee, I appreciate the chance to be here and would just like to indicate to you that having been Acting Administrator of GSA for less than two weeks, I vacated my position as Chief Financial Officer, or I would have been here through these hearings, but we have done a lot of preparation and hopefully we will be able to provide the kind of information that will be useful to you as you deliberate further.

INTRODUCTION OF MR. RATCHFORD

Before I introduce Gerry Thacker, I would like to especially introduce Bill Ratchford, who is in the process of——

Mr. HOYER. How do you spell that last name?

Mr. FISCHER. R-a-t-c-h-f-o-r-d, who I know has been here in the Congress before and we really are extremely fortunate to have him coming on board with us as our Director of Congressional Affairs

and Liaison. We will be briefing him over the future and I know he will be dealing a lot with the subcommittee that deals with the issues down the road.

Mr. HOYER. Mr. Fischer, if I might, just to interject, I was being facetious, of course when I asked how to spell the name. I have known Congressman Ratchford for I guess 25 years, or at least a good 20, certainly when he was speaker of the Connecticut house. He was a very outstanding Member of this body, universally respected, which is not always true of every Member who serves here. He is honest and conscientious, a public servant, as the American public will find, and I think you the staff of the GSA, and at all levels of GSA, you will find that you have a very effective spokesperson working with the Congress on the issues that confront GSA. So GSA is indeed fortunate. More importantly, the American people are fortunate to have somebody of Mr. Ratchford's caliber and integrity willing to come back into public service and into this position. I am delighted. He is as outstanding an individual as you are going to find.

Mr. FISCHER. Thank you, sir. We certainly welcome him and we look forward to his continued involvement with you. I will duck out at this moment after introducing Gerry Thacker, who is our Acting Commissioner of the Public Buildings Service. He in turn will introduce the rest of our people and I appreciate the chance to be here and look forward to continued success in working with you.

Mr. HOYER. Thank you, sir. We appreciate your being with us. Mr. Thacker, glad to hear from you.

STATEMENT OF MR. THACKER

Mr. THACKER. Good morning, Mr. Chairman, and members of the subcommittee. My name is Gerald Thacker and I am very pleased to appear before you today representing the Public Buildings Service and to discuss the Public Buildings Service and the funding for the real property programs.

I am the newly designated Acting Commissioner of the Public Buildings Service. I am actually on loan to the executive branch from the federal judiciary while the new administration is looking for a permanent Administrator and subsequently a permanent Commissioner.

I would like, if I might, since this is the first opportunity we have had to meet with the constituted subcommittee, to introduce some of the other senior staff with the Public Buildings Service. Perhaps it would be helpful for you to know who they are and what they do. At the table with me on my left is Wolfgang Zoellner, who was the Deputy Commissioner of the Public Buildings Service the past eight years. Wolfgang is presently serving as the Acting Regional Administrator out in the San Francisco region. David Bibb, whom some of you may have met before and worked with, is the Assistant Commissioner for Planning, and sort of going to the back, if I could, and just ask that the other members of the staff stand up as we introduce them.

First, some people not in PBS but who work with you on a continuing basis and with us as well, of course Mr. William Early, who is the head of the budget office for GSA and is presently acting as

the Chief Financial Officer since Mr. Fischer is Acting Administrator. And his deputy, Nancy Potter, who is heading up the budget office right now. Not in any particular order, from the Public Buildings Service, Ms. Deborah Schilling, who is the Deputy Controller of the Public Buildings Service and representing that office, Mr. Jim Steele, who is the Assistant Commissioner for Real Property Management and Safety, Mr. Bob DiLuchio, who is the Assistant Commissioner for Real Property Development, Mr. Gary De Yulia, who is the Assistant Commissioner for Physical Security and Law Enforcement, Mr. Brian Polly, who is the Assistant Commissioner for Procurement, Mr. Jim Williams, who is the Assistant Commissioner for Public Buildings Service Information Systems, and Mr. Jack Landers, who is the Assistant Commissioner with the Office of Governmentwide Real Property Relations, and finally, one more person you will be seeing a lot of I am sure in your subcommittee work, Mr. Tom Sherman, who is the Assistant Regional Administrator for the Public Buildings Service serving the National Capital Region.

Mr. Chairman, the Public Buildings Service is responsible for providing the work space for federal departments, the federal judiciary and the agencies where their work is carried out. This mission is crucial to the government's operation and we take this responsibility in the Public Buildings Service very seriously.

The Public Buildings Service is committed to giving quality services and the best value to our clients, thereby enhancing their ability to carry out their missions. We provide quality facilities, safe, healthful work environments, and sound management of the Federal Government's real property assets.

The Public Buildings Service primarily supplies general purpose office space, but our inventory also includes some special purpose facilities, such as courthouses, border stations, laboratories and data processing centers. More than a million federal employees from all three branches of the government work in our facilities. The 258 million square feet of space in the Public Buildings Service's inventory are located in over 7,800 buildings nationwide.

If the Public Buildings Service were in the private sector, it would be the largest real estate company in the country.

The acquisition and operation of all of this space is financed by the Federal Buildings Fund, a revolving fund. The Federal Buildings Fund and the Public Buildings Service's rent system were established by law first in 1972. Prior to that time, the Public Buildings Service's programs were primarily funded through direct appropriations.

Both the administration and the Congress wanted federal agencies' budgets to reflect their actual program costs, including the cost of facilities. In addition, they wanted to provide incentives to federal agencies to become more restrained in their requests for space by making agencies bear their own housing costs. Under the 1972 law, all federal occupants in the Public Buildings Service's facilities pay a rental charge for the space and related services they receive from us.

By law, the rental rates charged federal agencies reflect commercial rates as determined by private sector, professional real estate appraisals, and they are established for every building under our

control. Agencies' rental payments are collected by the Public Buildings Service and deposited in the Federal Buildings Fund.

The Public Buildings Service then budgets for the cost of leasing, operating, repairing and altering the space inventory from those rental revenues. Any remaining revenues are available for our capital program, modernizing existing buildings and constructing and manufacturing new buildings. The Public Buildings Service receives authority for expenditures from the Federal Buildings Fund in the annual appropriation act which originates in this subcommittee.

Unfortunately, in the early days of the Federal Buildings Fund, limited resources were available for capital investment due to restrictions on the fund's revenues and on rental rate freezes. These caps and freezes have resulted in more than $5 billion in lost revenues, in today's dollars, to the Federal Buildings Fund.

In recent years, due to the growth of the inventory and the elimination of most of those restrictions on rental rates charged by the Public Buildings Service, revenues to the Federal Buildings Fund have increased. For example, in 1992, the fund received $4 billion in rental revenues, compared to $2.3 billion in 1986.

Annual appropriations for three major agencies, the Departments of Agriculture, Transportation, and the Food and Drug Administration, continue to limit their rental payments into the Federal Buildings Fund to a level below commercially equivalent rents. The lost revenues due to these limits is more than $107 million in fiscal year 1993. This is $107 million of new construction or building purchases that have been deferred or converted to leasing due to lack of resources.

These losses in revenue are particularly critical due to the demand for space by our clients. The Public Buildings Service expects to provide more than 11.5 million square feet of expansion space to federal agencies this year. When permitted to operate as intended, the Federal Buildings Fund provides a reliable source of revenue sufficient to fund day-to-day building operation, operating leases, sound management of existing assets and a modest level of new construction. In recent years, the Public Buildings Service has been able to undertake a record level $10 billion capital investment program, including new construction and building modernizations.

These projects not only protect the government's real property assets and enhance its infrastructure, it creates new jobs in the private sector and allows the Public Buildings Service to carry out its mission delivering high quality facilities and services to the Federal Government and the American public.

Mr. Chairman, I would like to take a few minutes to describe our planning process to you, since the decisions made during this process are reflected in our capital budget request which comes before this subcommittee for approval during consideration of our annual appropriation.

The Public Buildings Service has a well established, effective planning system which is designed to identify and satisfy our client's space requirements at the least cost to the taxpayer. We have approximately 40 planning communities nationwide and all of them are surveyed by our regional facility planners at least every two years. This includes working closely with the federal agencies

in each community to determine their anticipated housing needs and conferring with local officials to ensure that federal plans are compatible with the community's plans.

As part of the planning process, the Public Buildings Service also surveys the utilization and condition of federal buildings in each locale. Based on the projected housing needs of our clients and the condition of our buildings, any requirements for long-term leases, new buildings and the modernization of existing buildings are all identified. In some instances, it may be more cost effective to house a federal agency in leased space.

In other cases the most economical alternative may be to locate the agency in new or renovated government-owned space. The housing options are extensively analyzed on a case-by-case basis at both the regional and headquarters level. Every year in the spring the Public Buildings Service's Planning and Project Review Board is convened to study all of the capital projects proposed by our regional offices and to determine which of them should be included in our budget submission to the Office of Management and Budget.

The Planning and Project Review Board is composed of the Public Buildings Service's highest level executives and senior managers. Following their analysis, all the projects which are recommended for implementation are then prioritized by the Planning and Project Review Board based on factors such as immediacy of client need, return on investment, and conformance with our goal of providing safe, healthful work environments for federal employees.

Lower priority projects for which funding is not available are postponed. The results of these analyses are reflected in the Public Buildings Service's budget request. Projects are included in the President's annual budget submission to Congress only after thorough review by both the General Services Administration and the Office of Management and Budget.

The proposed projects are then considered by the Public Works Committees of the House and Senate and authorized by committee resolution. Congress considers and approves funding for our capital projects during its deliberations on the General Services Administration's annual appropriation.

Finally, Mr. Chairman, I would like to discuss briefly the structure and size of the Public Buildings Service's budget. It has two components: Operating expenses and capital investments. In fiscal year 1993 they totaled together $4.9 billion. Our 1993 capital budget is $1.6 billion. This compares favorably with our capital budget for fiscal year 1986, just under $600 million. The increase in funding is directly attributable to the growth in Federal Buildings Fund revenues.

The capital budget provides funding for the construction of new buildings, such as site acquisition, design, and construction services. The capital budget also includes funding for major modernization of existing buildings. These are reinvestments to renew and replace the building's infrastructure and extend their useful life. This is particularly important since 52 percent of the Public Buildings Service's federally-owned buildings are over 40 years old. For fiscal year 1993 the Public Buildings Service has budgeted for 33 new construction projects, 17 building-wide major modernization projects, and 22 design projects.

Turning to our operating budgets, this year it is $3.3 billion. It includes over $1 billion to fund the day-to-day cleaning, utilities and maintenance in our own buildings and in leased buildings where these services are not covered by the terms of the lease.

The Public Buildings Service appreciates the subcommittee's interest in our program and looks forward to working with the Congress as it addresses these important issues. Thank you for inviting us to appear before the subcommittee today. The senior staff of the Public Buildings Service and I will be happy to answer any questions that you may have.

[The statement of Mr. Thacker follows:]

STATEMENT OF

P. GERALD THACKER

COMMISSIONER OF PUBLIC BUILDINGS

GENERAL SERVICES ADMINISTRATION

BEFORE THE SUBCOMMITTEE ON TREASURY,
POSTAL SERVICE AND GENERAL GOVERNMENT

COMMITTEE ON APPROPRIATIONS

UNITED STATES HOUSE OF REPRESENTATIVES

FEBRUARY 16, 1993

GOOD MORNING MR. CHAIRMAN, AND MEMBERS OF THE SUBCOMMITTEE. THANK YOU FOR THE OPPORTUNITY TO APPEAR BEFORE YOU TODAY TO DISCUSS THE GENERAL SERVICES ADMINISTRATION'S PUBLIC BUILDINGS SERVICE AND THE FUNDING FOR ITS REAL PROPERTY PROGRAMS. I AM GERALD THACKER, THE NEWLY DESIGNATED COMMISSIONER OF THE PUBLIC BUILDINGS SERVICE. ACCOMPANYING ME ARE THE PUBLIC BUILDINGS SERVICE'S ASSISTANT COMMISSIONERS.

MR. CHAIRMAN, THE PUBLIC BUILDINGS SERVICE IS RESPONSIBLE FOR PROVIDING THE WORKSPACE FOR FEDERAL DEPARTMENTS, COURTS AND AGENCIES TO CARRY OUT THEIR WORK. THIS IS CRUCIAL TO THE GOVERNMENT'S OPERATIONS, AND WE TAKE THIS RESPONSIBILITY SERIOUSLY. THE PUBLIC BUILDINGS SERVICE IS COMMITTED TO GIVING QUALITY SERVICES AND THE BEST VALUE TO OUR CLIENTS, THEREBY ENHANCING THEIR ABILITY TO CARRY OUT THEIR MISSIONS. WE PROVIDE QUALITY FACILITIES; SAFE, HEALTHFUL WORK ENVIRONMENTS; AND SOUND MANAGEMENT OF THE FEDERAL GOVERNMENT'S REAL PROPERTY ASSETS.

THE PUBLIC BUILDINGS SERVICE PRIMARILY SUPPLIES GENERAL PURPOSE SPACE, BUT OUR INVENTORY ALSO INCLUDES SPECIAL-USE FACILITIES, SUCH AS COURTHOUSES, BORDER STATIONS, LABORATORIES AND DATA PROCESSING CENTERS. MORE THAN ONE MILLION FEDERAL EMPLOYEES FROM ALL THREE BRANCHES OF THE GOVERNMENT WORK IN OUR FACILITIES. THE 258 MILLION SQUARE FEET OF SPACE IN THE PUBLIC BUILDINGS SERVICE'S INVENTORY ARE LOCATED IN OVER 7,800 BUILDINGS NATIONWIDE. IF THE PUBLIC BUILDINGS SERVICE WERE IN THE PRIVATE SECTOR, IT WOULD BE THE LARGEST REAL ESTATE COMPANY IN THE COUNTRY.

THE ACQUISITION AND OPERATION OF ALL OF THIS SPACE IS FINANCED BY THE FEDERAL BUILDINGS FUND, A REVOLVING FUND. THE FEDERAL BUILDINGS FUND, AND THE PUBLIC BUILDINGS SERVICE'S RENT SYSTEM, WERE ESTABLISHED BY LAW IN 1972. PRIOR TO THAT TIME, THE PUBLIC BUILDINGS SERVICE'S PROGRAMS WERE PRIMARILY FUNDED THROUGH DIRECT APPROPRIATIONS. BOTH THE ADMINISTRATION AND THE CONGRESS WANTED FEDERAL AGENCIES' BUDGETS TO REFLECT THEIR ACTUAL PROGRAM COSTS, INCLUDING THE COST OF THEIR FACILITIES. IN ADDITION, THEY WANTED TO PROVIDE INCENTIVES TO FEDERAL AGENCIES TO BECOME MORE RESTRAINED IN THEIR REQUESTS FOR SPACE BY MAKING AGENCIES BEAR THEIR OWN HOUSING COSTS.

UNDER THE 1972 LAW, ALL FEDERAL OCCUPANTS IN THE PUBLIC BUILDINGS SERVICE'S FACILITIES PAY A RENTAL CHARGE FOR THE SPACE AND RELATED SERVICES THEY RECEIVE FROM US. BY LAW, THE RENTAL RATES CHARGED FEDERAL AGENCIES REFLECT COMMERCIAL RATES AS DETERMINED BY PRIVATE SECTOR, PROFESSIONAL REAL ESTATE APPRAISALS, AND THEY ARE ESTABLISHED FOR EVERY BUILDING UNDER OUR CONTROL.

AGENCIES' RENTAL PAYMENTS ARE COLLECTED BY THE PUBLIC BUILDINGS SERVICE AND DEPOSITED IN THE FEDERAL BUILDINGS FUND. THE PUBLIC BUILDINGS SERVICE, THEN, BUDGETS FOR THE COST OF LEASING, OPERATING, REPAIRING AND ALTERING THE SPACE INVENTORY FROM THOSE RENTAL REVENUES. ANY REMAINING REVENUES ARE AVAILABLE FOR OUR CAPITAL PROGRAM -- MODERNIZING EXISTING BUILDINGS AND CONSTRUCTING AND PURCHASING NEW BUILDINGS. THE PUBLIC BUILDINGS SERVICE RECEIVES AUTHORITY FOR EXPENDITURES FROM THE FEDERAL BUILDINGS FUND IN THE ANNUAL APPROPRIATION ACT WHICH ORIGINATES

IN THIS SUBCOMMITTEE.

UNFORTUNATELY, IN THE EARLY DAYS OF THE FEDERAL BUILDINGS FUND, LIMITED RESOURCES WERE AVAILABLE FOR CAPITAL INVESTMENT DUE TO RESTRICTIONS ON THE FUND'S REVENUES AND RENTAL RATE FREEZES. THESE CAPS AND FREEZES HAVE RESULTED IN MORE THAN $5 BILLION IN LOST REVENUES, IN TODAY'S DOLLARS, TO THE FEDERAL BUILDINGS FUND.

IN RECENT YEARS, DUE TO THE GROWTH OF THE INVENTORY AND THE ELIMINATION OF MOST OF THE RESTRICTIONS ON RENTAL RATES CHARGED BY THE PUBLIC BUILDINGS SERVICE, REVENUES TO THE FEDERAL BUILDINGS FUND HAVE INCREASED. FOR EXAMPLE, IN 1992, THE FUND RECEIVED $4 BILLION IN RENTAL REVENUES, COMPARED TO $2.3 BILLION IN 1986.

ANNUAL APPROPRIATIONS FOR THREE MAJOR AGENCIES, THE DEPARTMENTS OF AGRICULTURE, TRANSPORTATION AND THE FOOD AND DRUG ADMINISTRATION, CONTINUE TO LIMIT THEIR RENTAL PAYMENTS INTO THE FEDERAL BUILDINGS FUND TO A LEVEL BELOW COMMERCIALLY EQUIVALENT RENTS. THE LOST REVENUES DUE TO THESE LIMITS IS MORE THAN $107 MILLION IN FISCAL YEAR 1993. THIS IS $107 MILLION OF NEW CONSTRUCTION OR BUILDING PURCHASES THAT HAVE BEEN DEFERRED OR CONVERTED TO LEASING DUE TO LACK OF RESOURCES.

THESE LOSSES IN REVENUE ARE PARTICULARLY CRITICAL DUE TO THE DEMAND FOR SPACE BY OUR CLIENTS. THE PUBLIC BUILDINGS SERVICE EXPECTS TO PROVIDE MORE THAN 11.5 MILLION SQUARE FEET OF EXPANSION SPACE TO FEDERAL AGENCIES THIS YEAR.

WHEN PERMITTED TO OPERATE AS INTENDED, THE FEDERAL BUILDINGS FUND PROVIDES A RELIABLE SOURCE OF REVENUE SUFFICIENT TO FUND DAY-TO-DAY BUILDING OPERATIONS, OPERATING LEASES, SOUND

MANAGEMENT OF EXISTING ASSETS, AND A MODEST LEVEL OF NEW CONSTRUCTION. IN RECENT YEARS THE PUBLIC BUILDINGS SERVICE HAS BEEN ABLE TO UNDERTAKE A RECORD-LEVEL $10 BILLION CAPITAL INVESTMENT PROGRAM INCLUDING NEW CONSTRUCTION AND BUILDING MODERNIZATIONS.

THESE PROJECTS NOT ONLY PROTECT THE GOVERNMENT'S REAL PROPERTY ASSETS AND ENHANCE ITS INFRASTRUCTURE, IT CREATES NEW JOBS IN THE PRIVATE SECTOR AND ALLOWS THE PUBLIC BUILDINGS SERVICE TO CARRY OUT ITS MISSION OF DELIVERING HIGH QUALITY FACILITIES AND SERVICES TO THE FEDERAL GOVERNMENT AND THE AMERICAN PUBLIC.

MR. CHAIRMAN, I WOULD LIKE TO TAKE A FEW MINUTES TO DESCRIBE OUR PLANNING SYSTEM FOR YOU, SINCE THE DECISIONS MADE DURING THIS PROCESS ARE REFLECTED IN OUR CAPITAL BUDGET REQUEST WHICH COMES BEFORE THIS SUBCOMMITTEE FOR APPROVAL DURING CONSIDERATION OF OUR ANNUAL APPROPRIATION.

THE PUBLIC BUILDINGS SERVICE HAS A WELL-ESTABLISHED, EFFECTIVE PLANNING PROCESS WHICH IS DESIGNED TO IDENTIFY AND SATISFY OUR CLIENTS' SPACE REQUIREMENTS AT THE LEAST COST TO THE TAXPAYER. WE HAVE APPROXIMATELY 40 PLANNING COMMUNITIES NATIONWIDE, AND ALL OF THEM ARE SURVEYED BY OUR REGIONAL FACILITY PLANNERS AT LEAST EVERY TWO YEARS. THIS INCLUDES WORKING CLOSELY WITH THE FEDERAL AGENCIES IN EACH COMMUNITY TO DETERMINE THEIR ANTICIPATED HOUSING NEEDS AND CONFERRING WITH LOCAL OFFICIALS TO ENSURE THAT FEDERAL PLANS ARE COMPATIBLE WITH THE COMMUNITIES' PLANS. AS PART OF THE PLANNING PROCESS, THE PUBLIC BUILDINGS SERVICE ALSO SURVEYS THE UTILIZATION AND CONDITION OF FEDERAL

BUILDINGS IN EACH LOCALE.

BASED ON THE PROJECTED HOUSING NEEDS OF OUR CLIENTS AND THE CONDITION OF OUR BUILDINGS, ANY REQUIREMENTS FOR LONG-TERM LEASES, NEW BUILDINGS AND THE MODERNIZATION OF EXISTING BUILDINGS ARE IDENTIFIED. IN SOME INSTANCES, IT MAY BE MORE COST EFFECTIVE TO HOUSE A FEDERAL AGENCY IN LEASED SPACE. IN OTHER CASES, THE MOST ECONOMICAL ALTERNATIVE MAY BE TO LOCATE THE AGENCY IN NEW OR RENOVATED GOVERNMENT OWNED SPACE. THE HOUSING OPTIONS ARE EXTENSIVELY ANALYZED, ON A CASE-BY-CASE BASIS, AT BOTH THE REGIONAL AND HEADQUARTERS LEVEL.

EVERY YEAR, IN THE SPRING, THE PUBLIC BUILDINGS SERVICE'S PLANNING AND PROJECT REVIEW BOARD IS CONVENED TO STUDY ALL OF THE CAPITAL PROJECTS PROPOSED BY OUR REGIONAL OFFICES AND TO DETERMINE WHICH OF THEM SHOULD BE INCLUDED IN OUR BUDGET SUBMISSION TO THE OFFICE OF MANAGEMENT AND BUDGET. THE PLANNING AND PROJECT REVIEW BOARD IS COMPOSED OF THE PUBLIC BUILDINGS SERVICE'S HIGHEST-LEVEL EXECUTIVES AND MANAGERS.

FOLLOWING THEIR ANALYSIS, ALL THE PROJECTS WHICH ARE RECOMMENDED FOR IMPLEMENTATION ARE THEN PRIORTIZED BY THE PLANNING AND PROJECT REVIEW BOARD BASED ON FACTORS SUCH AS IMMEDIACY OF CLIENT NEED, RETURN ON INVESTMENT, AND CONFORMANCE WITH OUR GOAL OF PROVIDING SAFE, HEALTHFUL WORK ENVIRONMENTS FOR FEDERAL EMPLOYEES. LOWER PRIORITY PROJECTS FOR WHICH FUNDING IS NOT AVAILABLE ARE POSTPONED.

THE RESULTS OF THESE ANALYSES ARE REFLECTED IN THE PUBLIC BUILDINGS SERVICE'S BUDGET REQUEST; PROJECTS ARE INCLUDED IN THE PRESIDENT'S ANNUAL BUDGET SUBMISSION TO CONGRESS ONLY AFTER

THOROUGH REVIEW BY BOTH THE GENERAL SERVICES ADMINISTRATION AND THE OFFICE OF MANAGEMENT AND BUDGET.

THE PROPOSED PROJECTS ARE THEN CONSIDERED BY THE PUBLIC WORKS COMMITTEES OF THE HOUSE AND THE SENATE AND AUTHORIZED BY COMMITTEE RESOLUTION. CONGRESS CONSIDERS AND APPROVES FUNDING FOR OUR CAPITAL PROJECTS DURING ITS DELIBERATIONS ON THE GENERAL SERVICES ADMINISTRATION'S ANNUAL APPROPRIATION.

FINALLY, MR. CHAIRMAN, I WOULD LIKE TO DISCUSS BRIEFLY THE STRUCTURE AND SIZE OF THE PUBLIC BUILDINGS SERVICE'S BUDGET. IT HAS TWO COMPONENTS; OPERATING EXPENSES AND CAPITAL INVESTMENT. IN FISCAL YEAR 1993, THEY TOTAL $4.9 BILLION.

OUR 1993 CAPITAL BUDGET IS $1.6 BILLION. THIS COMPARES FAVORABLY WITH OUR CAPITAL BUDGET FOR FISCAL YEAR 1986 -- JUST UNDER $600 MILLION. THE INCREASE IN FUNDING IS DIRECTLY ATTRIBUTABLE TO THE GROWTH IN FEDERAL BUILDINGS FUND REVENUES.

THE CAPITAL BUDGET PROVIDES FUNDING FOR THE CONSTRUCTION OF NEW BUILDINGS, SUCH AS SITE ACQUISITION, DESIGN AND CONSTRUCTION. THE CAPITAL BUDGET ALSO INCLUDES FUNDING FOR MAJOR MODERNIZATIONS FOR EXISTING BUILDINGS. THESE ARE REINVESTMENTS TO RENEW AND REPLACE THE BUILDINGS' INFRASTRUCTURES AND EXTEND THEIR USEFUL LIFE. THIS IS PARTICULARLY IMPORTANT SINCE 52 PERCENT OF THE PUBLIC BUILDINGS SERVICE'S FEDERALLY OWNED BUILDINGS ARE OVER 40 YEARS OLD. FOR FISCAL YEAR 1993, THE PUBLIC BUILDINGS SERVICE HAS BUDGETED FOR 33 NEW CONSTRUCTION PROJECTS, 17 BUILDING-WIDE MAJOR MODERNIZATION PROJECTS, AND 22 DESIGN PROJECTS.

TURNING TO OUR OPERATING BUDGET, THIS YEAR, IT IS $3.3 BILLION. IT INCLUDES OVER $1 BILLION TO FUND THE DAY-TO-DAY

CLEANING, UTILITIES AND MAINTENANCE IN OUR OWNED BUILDINGS AND IN LEASED BUILDINGS WHERE THESE SERVICES ARE NOT COVERED BY THE TERMS OF THE LEASE.

THE PUBLIC BUILDINGS SERVICE APPRECIATES THE SUBCOMMITTEE'S INTEREST IN OUR PROGRAM, MR. CHAIRMAN, AND LOOKS FORWARD TO WORKING WITH THE CONGRESS AS IT ADDRESSES THESE IMPORTANT ISSUES. AGAIN, THANK YOU FOR INVITING THE PUBLIC BUILDINGS SERVICE TO APPEAR BEFORE THE SUBCOMMITTEE TODAY. I WOULD BE HAPPY TO ANSWER ANY QUESTIONS YOU MAY HAVE.

U.S. General Services Administration

Public Buildings Service

An Overview

Commitment

To give our clients quality space and services and the best value, thereby allowing them to carry out their missions.

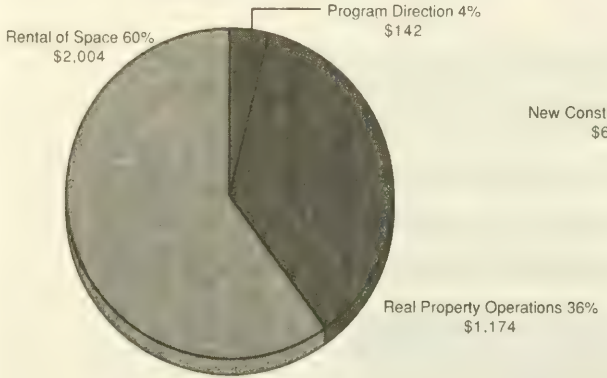
PBS Provides:

- Quality Facilities
- Safe, Healthful Work Environments
- Sound Management of Assets

Federal Buildings Fund
FY 1993 Program

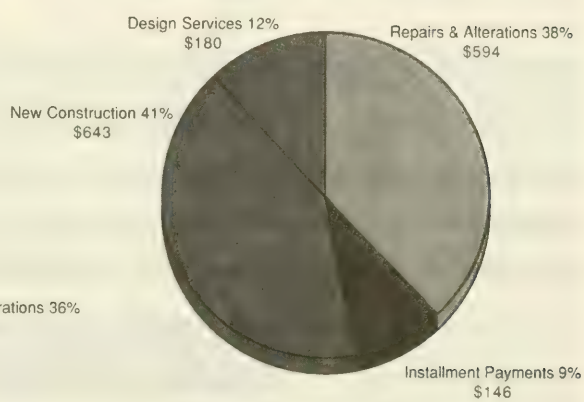
($ in Millions)

Operating Budget



Total Operating Budget
($3,320)

Capital Budget

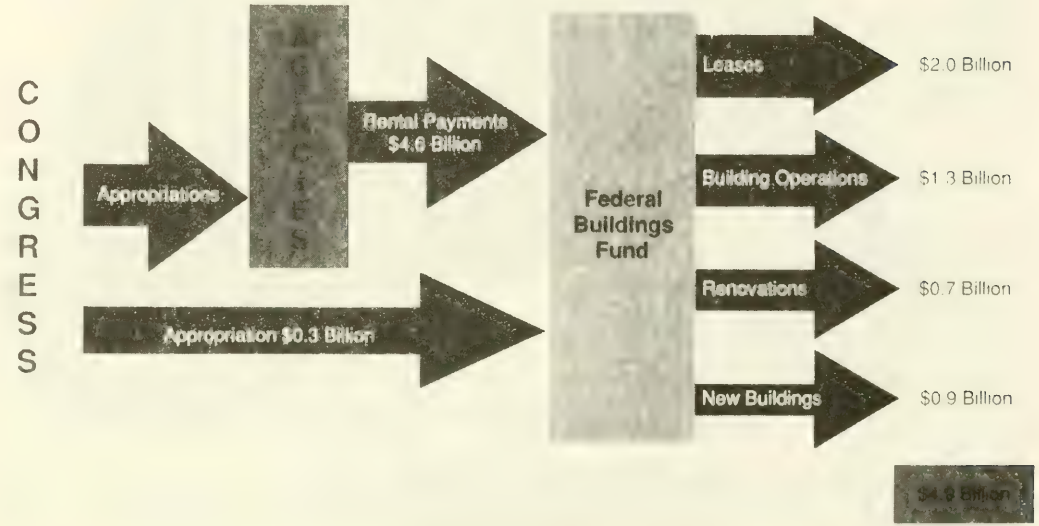


Total Capital Budget
($1,563)

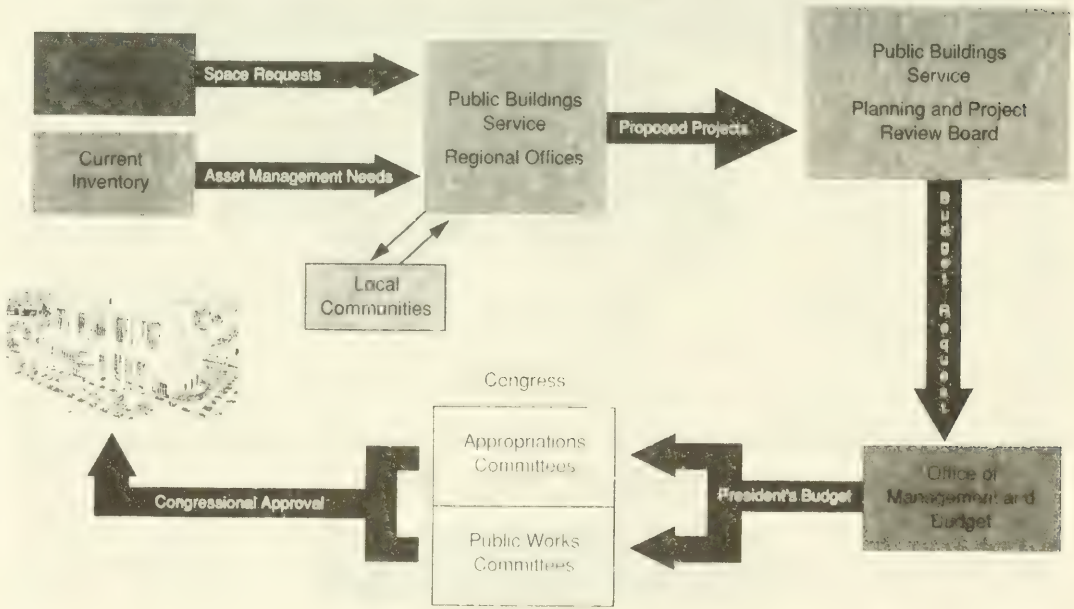
Public Buildings Service

Current Capital Projects

Federal Buildings Fund



Planning System



Public Buildings Service

New Construction

GENERAL SERVICES ADMINISTRATION

SCORING

LEASE/PURCHASE AND CAPITAL ASSETS

Scoring Lease-Purchase and Leases of Capital Assets
Summary

Scorekeeping rules have been developed by the Congressional Budget Office (CBO) and the Office of Management and Budget (OMB) in connection with the Budget Enforcement Act of 1990 (BEA). There is a scorekeeping rule that focuses on leases and lease-purchases that are specifically authorized by law. However, the scorekeeping requirements apply to all lease-purchase arrangements and capital leases, including those arrangements that agencies may enter into under existing general legal authorities and arrangements that are financed through the Federal Financing Bank (FFB).

As a general rule, when Congress enacts legislation that enables an agency to enter into a lease-purchase or capital lease arrangement for a specific project without further appropriations action, it is assumed by the scorekeepers that Congress has provided the budget authority required for the transaction up front. However, when an agency enters into a capital lease or lease-purchase arrangement under general authorities available to the agency, it must do so within the limits of the budgetary resources otherwise available to it and the constraints of the scorekeeping requirements. There are no additional resources provided in this situation.

For lease purchases or capital leases specifically authorized in legislation the authority to borrow in the form of budget authority is recorded up front when the transaction is a lease-purchase without substantial private risk. A portion of the amount appropriated, or collected, if the agency receives offsetting collections, for the annual lease payment will be applied to retire outstanding agency debt. Conversely, contract authority is recorded up front when the transaction is a lease-purchase with substantial private risk or a capital lease. Likewise, a portion of the amount appropriated, or collected, if the agency receives offsetting collections, for the annual lease-payment will be applied to liquidate contract authority.

OMB Circular A-11, Appendix B, section 2(d), Appropriations for annual lease payments, states in part that "The annual lease payments under a lease-purchase agreement or capital lease can be divided into three components: principal, differential cost of financing, and imputed interest cost."

"Generally, lease-purchases and capital leases that are specifically authorized in legislation will require annual appropriations in an amount equal to the annual lease payment. Since budget authority equal to the principal and differential cost of financing (i.e. the asset cost) was already scored up front, the full amount of the annual appropriations will not be scored as new budget authority...."

When legislation specifically authorizes a lease-purchase or capital lease, the upfront budget authority (in the form of authority to borrow or contract authority as appropriate) will be recorded when the authority first becomes available for obligation. When the authority stems from general authority available to the agency, obligations are recorded, and sufficient budgeting resources must be available, when the lease agreement is signed.

There follows a summarization of the detail on scoring purchases, lease-purchases, and leases, explained in greater detail in Appendix B, OMB Circular A-11:

Lease-purchase -- A type of lease in which ownership of the asset is transferred to the Government at or shortly after the end of the lease period. Such a lease may or may not contain a bargain-price purchase option.

Capital lease -- Any lease other than a lease-purchase that does not meet the criteria of an operating lease.

Operating lease -- An operating lease must meet the following criteria. If the criteria are not met, the lease will be considered to be a capital lease or a lease-purchase, as appropriate.

-- Ownership of the asset remains with the lessor during the term of the lease and is not transferred to the Government at or shortly after the end of the lease period.

-- The lease does not contain a bargain-price purchase option.

-- All risks of ownership of the asset (financial responsibility for destruction or loss of the asset) remain with the lessor, unless the Government is at fault for such losses.

-- The lease term does not exceed 75% of the estimated economic life of the asset.

-- The present value of the minimum lease payments over the life of the lease does not exceed 90% of the fair market value of the asset at the inception of the lease.

-- The asset is a general purpose asset rather than for a special purpose of the Government and is not built to unique specifications of the Government as lessee.

-- There is a private sector market for the asset.

-- The asset (structure) is not constructed on Government land.

Risk: Summary of illustrative criteria for determining private risk. -- Legislation and lease-purchase contracts will be considered against the following type of illustrative criteria to evaluate the level of private sector risk in a project:

-- There should be no explicit Government guarantee of third party financing.

-- All risks of ownership of the asset (e.g. financial responsibility for destruction or loss of the asset) should remain with the lessor unless the Government was at fault for such losses.

-- The asset should be a general purpose asset rather than for a special purpose of the Government and should not be built to unique specifications for the Government as lessee. There should be a private sector market for the asset.

-- The project should not be constructed on Government land.

Directed Scorekeeping -- Language that attempts to waive the Anti-Deficiency Act or to limit the amount or timing of obligations recorded, does not change the Government's obligations or obligational authority, and so will not affect the scoring of budget authority or outlays.

Outlays for lease purchases in which the Federal Government assumes substantial risk will be spread across the period during which the contractor constructs, manufactures, or purchases the asset. Outlays for a lease or lease-purchase in which the private sector retains substantial risk will be spread across the lease period. In all cases, the total amount of outlays scored over time against a bill will equal the amount of budget authority scored against that bill.

There follows separate specific examples of the impact of the Budget Enforcement Act scoring rules on programs and projects of the Public Buildings Service and the Federal Supply Service. Also attached are the sections of OMB Circular A-11 which contain the basic scorekeeping rules set forth in the Budget Enforcement Act.

SCORING OF BUDGET AUTHORITY AND OUTLAYS

	BUDGET AUTHORITY	INT. RATE	OUTLAYS	OWNERSHIP
CONSTRUCTION/ ACQUISITION	ASSET COST SCORED UP FRONT ($79.8M)	N/A	DISBURSEMENT FOR ASSET COST SCORED OVER CONSTRUCTION PERIOD yr1 $21.9M, yr2 $36.0M, yr3 $21.9M	Y
LEASE-PURCHASE*	ASSET COST, PLUS CONSTRUCTION PERIOD INTEREST SCORED UP FRONT ($90.9M)	FEDERAL	DISBURSEMENT FOR ASSET COST PLUS CONSTR. PERIOD INTEREST SCORED OVER CONSTR. PERIOD yr1 $22.6M, yr2 $40.2M, yr3 $28.1M yr4 through yr23 Interest Payment	Y
LEASE-PURCHASE II*	ASSET COST, PLUS CONSTRUCTION PERIOD INTEREST & TREASURY DIFFERENTIAL SCORED UP FRONT ($97.3M)	PRIVATE	ANNUAL LEASE-PURCHASE PAYMENT yr1 through yr3 Nothing yr4 through year23 Annual Lease-Purchase Payment $9.5M per year	Y
CAPITAL LEASE*	ASSET VALUE SCORED UP FRONT ($93.2M)	PRIVATE	ANNUAL LEASE PAYMENT yr1 through yr3 Nothing yr4 through yr23 $9.1M per year	N
OPERATING * LEASE	ANNUAL LEASE PAYMENT SCORED ANNUALLY ($ 9.1M per year)	PRIVATE	ANNUAL LEASE PAYMENT yr 1 through yr 3 Nothing yr 4 through yr 23 $9.1 M per year	N
PURCHASE	PURCHASE PRICE SCORED UP FRONT ($79.8) ($79.8)	N/A	DISBURSEMENT FOR PURCHASE PRICE AT CLOSING YR 1 $79.8	Y

*20 year term

FEDERAL BUILDINGS FUND
SCORING OF BUDGET AUTHORITY AND OUTLAYS
AQUISITION OF REAL ESTATE
(DOLLARS IN MILLIONS)

	BUDGET AUTHORITY SCORED UP FRONT	OUTLAYS BY YEAR				
		1ST	2ND	3RD	4TH/23RD	TOTAL
CONSTRUCTION/ ACQUISITION	79.8	21.9	36	21.9	---	79.8
LEASE-PURCHASE	90.9	22.6	40.2	28.1	74.4	165.3
LEASE-PURCHASE II	97.3	---	---	---	190.0	190.0
CAPITAL LEASE	93.2	---	---	---	182	182
OPERATING LEASE	9.1 1/	---	---	---	182	182
PURCHASE	79.8	79.8	---	---	---	79.8

1/ New Obligational Authority (NOA)

Note: All lease-purchase and lease arrangments assume a 20-year term

NOTES TO ACCOMPANY
SCORING OF BUDGET AUTHORITY AND OUTLAYS CHART

There are five ways in which GSA can acquire a real property interest. Three methods (Construction/Acquisition and the two types of lease-purchases) result in Government ownership while the remaining two (capital and operating leases) represent the acquisition of a leasehold interest which terminates at the conclusion of the lease payments.

In order to place all of the transactions on an equal financial basis it has been assumed that the term for lease-purchases and leases will be twenty years from the date of occupancy. It is also assumed that the contract cost of the building in all cases will be $79.8 million.

The estimates of BA and outlays are based upon a hypothetical project of approximately 334,000 occupiable square feet located in a Federal regional city. The economic assumptions are based on current interest rates. For purposes of this presentation the design-build method of construction will be used and the construction term is for three years. Listed below are the five acquisition methods with an explanation of the scoring of Budget Authority (BA) and outlays.

Acquisition Methods that Result in Ownership

CONSTRUCTION/ACQUISITION:

The example shown is for a direct funded Federal construction project. Under this method the cost of the asset (the contract cost), $79.8 million, is scored as BA in the year in which it is appropriated.

The outlays are scored over the term of the construction contract and mirror the expected payments to the contractor.

The total outlays for the project exactly equal the BA that was scored in the first year. This method of acquiring a real property interest requires the least total BA and outlays ($79.8 million).

LEASE PURCHASE (Federally Financed):

By entering into a lease-purchase contract with the Government providing both the construction period and permanent financing, the cost of the asset plus the construction period interest are scored as BA in the year in which it is authorized. In this example the cost of financing the construction over a three year period is $11.1 million which results in a total requirement of $90.9 million. In addition to the amount initially scored as BA, there is a requirement to annually provide BA in the amount of the annual interest payment over the full 20 year repayment term.

Likewise there are two outlay requirements. The first requirement is to score the amount initially recorded as BA over the period during which the building is under construction. These outlays mirror the payments to the contractor plus an amount equal to the interest that accrues each year. The second requirement is to score the amount of the annual interest payment in the year(s) in which it accrues.

The total outlays for a Federally financed lease purchase project are then the sum of the contract cost plus the accrued construction period interest plus the sum of the interest payments over the term (20 years) of the lease-purchase agreement this equates to $165.3 million. ($79.8 million plus $11.1 million plus $74.4 million)

LEASE PURCHASE II (Privately financed):
(Assuming private risk)

By entering into a lease-purchase contract with a developer who will provide both the construction period and permanent financing, the amount scored as BA is the cost of the asset plus the construction period interest plus the differential cost of financing.

The differential cost of financing is the net present value of the difference in cost between the developer's cost of borrowing and the Treasury cost of borrowing over a similar period.

In this example the three amounts to be scored are: 1) asset cost $79.8 million; 2) construction period interest at private rates $13.4 million; and 3) the differential cost of borrowing $4.1 million. This totals to $97.3 million which is scored in the year that the project is authorized. In addition to the amount initially scored as BA there is a requirement to annually provide BA in the amount of undiscounted portion of the annual interest payment over the full 20 year repayment term.

Outlays for privately financed lease-purchase projects are scored in amounts equal to the annual lease-purchase payment in the year that the payments are due. This equates to outlays of $9.5 million per year for 20 years, a total of $190 million, starting when the Government accepts the building.

Unlike the previous methods there is an additional cost that must be factored into the analysis. In situations where lease-purchases are privately financed it is assumed that the Government does not hold clear title and as such the developer and in turn the Government is liable for the payment of real estate taxes until the lease purchase is paid in full.

Acquisition Methods that do not Result in ownership

CAPITAL LEASE:

A capital lease is scored for both BA and outlays very similarly to a privately financed lease-purchase. The amount that is recorded as BA is defined as the asset value of the property. This is obtained by calculating the net present value of the net lease payments over the term of the lease.

BA is scored when the authority to enter into the capital lease first becomes available for obligation. Additionally, BA will be required in future years for the undiscounted portion of the net rent plus the cost of any services covered under the lease.

Outlays are scored as annual rental payments are made.

Unlike the previous methods, a capital lease, unless it contains a specific purchase option, does not transfer ownership to the Government at the conclusion of the lease term.

A "Capital Lease" is defined as any lease other than a lease purchase that does not meet the criteria of an operating lease. An operating lease must contain all of the following criteria:

- The lease may not contain a "bargain price" purchase option;
- Ownership will not transfer at the end of the lease term;
- The lessor assumes all risks of ownership;
- The lease term does not exceed 75% of the estimated economic life of the asset;
- The present value of the minimum lease payments over the life of the lease does not exceed 90% of the fair market value of the asset;
- The asset must be for general purpose space, not built to unique Government specifications;
- There is a private sector market for the asset;
- It is not constructed on Government-owned land.

Therefore, if any of the above listed criteria are not met the lease is by definition a capital lease and must be scored as indicated above. If a lease meets all of the above listed criteria it is defined as an operating lease and the scoring rules are listed below.

OPERATING LEASE:

An operating lease requires the same amounts of BA and outlays as a capital lease. The difference is that BA is scored over the term of the lease as opposed to being scored up front. Total BA and outlays over the term of the lease are $182 million.

SCORING OF BUDGET AUTHORITY AND OUTLAYS
VEHICLE LEASES

METHOD	BUDGET AUTHORITY	INT. RATE	OUTLAYS	OWNER-SHIP
PURCHASE	PURCHASE PRICE UP FRONT $53.9M TOTAL $53.9M	N/A	UP FRONT $53.9M TOTAL $53.9	Y
LEASE-PURCHASE	ASSET COST UP FRONT, IMPUTED INTEREST ON ANNUAL BASIS yr1 $56.6M yr2 $2.2M yr3 $1.8M TOTAL $60.6M	FEDERAL	ASSET COST UP FRONT, IMPUTED INTEREST ON ANNUAL BASIS yr1 $56.6M yr2 $2.2M yr3 $1.8M TOTAL $60.6M	Y
LEASE-PURCHASE	ASSET COST UP FRONT, IMPUTED INTEREST ON ANNUAL BASIS yr1 $57.6M yr2 $2.2M yr3 $1.7M TOTAL $61.5M	PRIVATE	ASSET COST UP FRONT, IMPUTED INTEREST ON ANNUAL BASIS yr1 $57.6M yr2 $2.2M yr3 $1.7M TOTAL $61.5m	Y
CAPITAL LEASE	ASSET COST UP FRONT, IMPUTED INTEREST ON ANNUAL BASIS yr1 $57.6M yr2 $2.2M yr3 $1.7M TOTAL $61.5M	PRIVATE	LEASE PAYMENTS SCORED ANNUALLY yr1 $10.9M yr2 $10.9M yr3 $39.7M TOTAL $61.5M	*
OPERATING LEASE	LEASE PAYMENTS SCORED ANNUALLY yr1 $11.4M yr2 $11.4M yr3 $40.2M TOTAL $63.0M	PRIVATE	LEASE PAYMENTS SCORED ANNUALLY yr1 $11.4M yr2 $11.4M yr3 $40.2M TOTAL $63.0M	N

ALL OPTIONS EXCEPT OUTRIGHT PURCHASE ASSUME 3 YEAR TERM.
*MAY RESULT IN OWNERSHIP AT OPTION OF THE GOVERNMENT.

10
~~12~~

NOTES TO ACCOMPANY
SCORING OF VEHICLE ACQUISTITIONS CHART

Of the five ways the General Services Admistration (GSA) can acquire vehicles for its Interagency Fleet Management System (IFMS), it is effectively precluded from three of the methods by the scoring implications of Office of Management and Budget Circular A-11. GSA does purchase vehicles outright with its available capital (Method 1 on the chart). However, capital is inadequate to meet all the vehicle replacement requirements of its fleet. Since budget constraints have not permitted lease/purchase with Federal Financing Bank (FFB) financing (Method 2), lease-purchase with private financing (Method 3), or capital leasing (Method 4), the IFMS has limited its acquisition methods to purchase within available funding and operating leases (Method 5).

In 1992 and 1993 the IFMS constructed hybrid lease contracts to comply with the operating lease definitions of A-11. Special insurance, liability, and residual value features were required to meet the Circular's test of an operating lease, with the lessor retaining risks of ownership formerly assumed by the Government under capitalized lease/lease-purchase arrangements.

The purchase price, operating lease interest rate, and then-current Treasury and FFB borrowing rates from the 1993 lease were used to determine the various methods' scoring for the acquisition of 7,000 vehicles. The private financing rate for lease-purchase with substantial private risk and capital lease was assumed at one percentage above Treasury borrowing. The lease term (Methods 2 through 5) is for three years with an additional payment due to the contractor at the end of the term. Under the operating lease, the vehicles are sold by the Government as agent for the contractor with proceeds going to the contractor and it has been assumed the sales proceed will equal the payment due. Annual scoring amounts depict payments beginning in October of the first year.

ALTERNATIVES TO FINANCING THE ACQUISITION OF FEDERAL OFFICE SPACE

Mr. HOYER. Thank you very much, Mr. Thacker. I thought that was a good overview to give us an idea of where we are. As I indicated in my opening statement, I am very interested in the options available to us for financing the acquisition for lease or lease/purchase of buildings and I would very much appreciate it if you could give me—give the Committee—the alternatives that are available, and if you can provide a brief summary of the advantages and disadvantages of each approach and the scoring implications which are particularly important to the Committee in terms of how it manages its resources of each of the approaches.

Mr. THACKER. I will try to the best of my ability, and I ask that Mr. Zoellner and Mr. Bibb, either one, help supplement my remarks, please.

Mr. HOYER. Glad to have anybody who wants to contribute, do so.

Mr. THACKER. Generally the acquisition faced is either in equity or leasehold, that is, the government can either lease buildings or acquire them by purchase or by construction. The general pattern at this point is to lease space. The current mix is somewhere in the neighborhood of 55 percent government-owned space to 45 percent leased space in the current inventory, and that number has—or that ratio, rather, has decreased over the last 10 years or so. The scoring implications——

Mr. HOYER. When you say the ratio has decreased?

Mr. THACKER. Yes. From a high of about 70.

Mr. BIBB. About 20 years ago it was 75 percent owned, 25 percent leased.

Mr. THACKER. And it is currently 55 percent owned and 45 percent leased.

Mr. HOYER. Now, how much of that has been driven by fiscal management issues as opposed to budget decisions based upon a cost effective arrangement for the Federal Government?

In other words, how much is driven by budget? Are the business decisions being driven by budget decisions as opposed to business decisions and how much is driven by what is the best option for the American taxpayer?

Mr. THACKER. I think it may be best to answer that question by pursuing your first question just a bit further, and that is, some of the budgetary implications of any of those possibilities. In fact, we have a little chart, if you wouldn't mind my using it, to sort of help illustrate a particular case that may be helpful to you.

Just as—for my own information to sort of get an understanding of the implications, I had asked to have a particular project identified in different ways, so we have a construction project that if it were done as a federally-funded construction managed by the Federal Government, would cost about $79.8 million.

The same amount of space could also be acquired in several other ways. It could be strictly leased on a short term basis for up to 20 years, something called capital lease which meets specific criteria set out by the Office of Management and Budget, or some arrangement of lease with ownership at the end of the lease or at some point during the lease.

Now, as you can see, the difference in how the budget authority is scored for the same amount of space, for a project costing about the same amount of money to construct, ranges anywhere from $9.1 million in budget authority, if the project were leased on an operating lease basis, that is, no equity on the government's part and no risk on the government's part except for the term of the lease, to a high of $97.3 million in budget authority scoring in the first year, if it were termed to be a lease/purchase arrangement.

And there are some similar disparities in how the scoring of outlays would occur on this hypothetical project. So the variables in the scoring involve the terms, that is, whether there is government ownership or equity in the project, whether the project is a short-term lease or a long-term lease, whether the project is federally financed or privately financed.

All of those variables, again, enter into the scoring decision. Since the capital funds available in the Federal Buildings Fund are arrived at by first determining what the fixed costs of maintaining the inventory are, the funds for capital investment are usually quite limited, and it becomes critical to match up a particular project against the availability of funds as scored in that particular year.

So a long way of answering your second question, is that in almost every decision about whether to lease or purchase, the budgetary implications have to be taken into consideration and the amount of capital funds available in any given year have to be matched against the scoring realities.

In a practical sense, again, the rental of space budget now is about $2 billion out of the $4.8 billion budget in the Federal Buildings Fund on a yearly basis.

Mr. HOYER. I am sorry, the $2 billion reflects what?

Mr. THACKER. Reflects the yearly rental costs in the Federal Buildings Fund now.

CAPITAL VERSUS OPERATING LEASE

Mr. HOYER. Now, explain to me the difference between the capital lease and the operating lease.

Mr. THACKER. If I might just take a second to actually find the rules that OMB applies.

Mr. HOYER. In here, the brief that I have read, the capital lease is every lease that doesn't fit the criteria of an operating lease.

Mr. THACKER. That isn't an operating lease, yes. In fact, OMB has some very specific rules. The lease may not contain a bargain price purchase option, ownership will not transfer at the end of the lease term, the lessor assumes all risk of ownership, the lease term does not exceed 75 percent of the estimated economic life of the asset, the present value of the minimum lease payments over the life of the lease does not exceed 90 percent of the fair market value of the asset, the asset must be for general purpose space, not built to unique government specifications, there is a private sector market for the asset, and it is not constructed on government-owned land. If any one of those criterion are violated, the lease is then a capital lease and they score it as a capital lease rather than an operating lease.

Mr. HOYER. Now, in looking at your four alternatives there, building what I presume to be a $79.8 million building, correct?

Mr. THACKER. Yes.

Mr. HOYER. If you built it in one year.

Mr. THACKER. Yes.

Mr. HOYER. Now, scoring outlays currently under the present process is three years scoring outlay.

Mr. THACKER. For federally-funded construction, or over the life of construction. In this case we are assuming it is three-year.

Mr. HOYER. In the private sector, which would the private sector say is a better buy? Do you have an opinion on that? Or you may not know.

Mr. THACKER. Well, I think GSA has often been compared to a private real estate developer and I am not sure that is a very good analogy. I think the Public Buildings Service is more of a corporate real estate office for a very large conglomerate and any particular decision about a particular project has to take into account a number of issues, including the overall economic strategy of the corporation and how that particular business decision would fit into a corporate strategy.

So I think there would be instances certainly where it would be prudent to lease the space, either for a short period of time or because of the particular market rates in the local community, it might be prudent to lease for a long period with a purchase option if there was some uncertainty about how long the space would be needed.

So a particular decision would be particular to a local community and to a specific project. I think in general the General Accounting Office, for example, in some recent studies, has indicated that if it is going to be for long-term use, that the Federal Government is better off owning the asset rather than leasing the asset.

Mr. HOYER. So that you would take option one or two?

Mr. THACKER. If all other factors were equal——

Mr. HOYER. Now, realizing that the decisions made are particular to a certain project.

Mr. THACKER. Right.

Mr. HOYER. Given that, if you are making a decision for the taxpayer on this building that you project is going to be used for 20 years, under each of the four alternatives.

Mr. THACKER. Or longer.

Mr. HOYER. I understand that.

Mr. THACKER. Yes, we have a limit on the lease.

Mr. HOYER. The operating lease on a lease/purchase, say 20 year time frame.

Mr. THACKER. With i.e. special authority, the lease/purchase or the capital lease could be longer than 20 years, but generally our limit is to enter into a lease for no more than 20 years.

SCORING IMPLICATIONS

Mr. HOYER. What advantage is there to the Committee in terms of scoring or to the agency in terms of scoring to choose any of the last three options?

Mr. THACKER. In terms of scoring, obviously, the least impact on budget authority and short-term outlays is to enter into an operating lease.

Mr. HOYER. You say short-term lease. The operating lease is a $9.1 million scoring. That is the only one in which you are, in effect, assessed on an annual basis the cost of acquiring the leasehold for that year. On the State level you would have a capital budget.

Mr. THACKER. Exactly.

Mr. HOYER. We don't have a capital budget. That gives us all a lot of angst because reasonably what you do is you don't pay $79.8 million out of your pocket that year as a practical matter for something that my grandchild is going to be able to use as opposed to operating expense which she won't be able to use, and you want to amortize that over your 20 years.

Mr. THACKER. At least 20. Again, over half of our inventory is over 40 years old.

Mr. HOYER. In Maryland, for instance, as you probably know, we have a Triple A bond rating. We do have a dedicated tax to the retirement of capital debt and we have some 15-year bonds as you may know, but whether it is a 15, 20, 30, 40-year bond, whatever it is, you would amortize it. Now, we don't do that in this Committee.

So we buy something that generations to come are going to use and we are scoring $79.8 million off the top.

Mr. THACKER. Just as though you were buying pencils or——

Mr. HOYER. Yes, which has never seemed to me to be a very reasonable way to do business. We then got into these other parameters—not parameters, but scenarios, largely driven as I said by scoring decisions, not fiscally prudent decisions, at least to the extent you are saving the taxpayer money. That is what I am trying to get at with these questions.

If you can address the questions in that context. What the Committee really needs to understand is what negotiations we want to have with Mr. Panetta as to how we score these things, not so much that we buy any particular building. I would prefer that the decisions not be driven by a scoring but driven by what is in the best interest of the government and the American taxpayer and that ultimately—long term—it is cheaper, not in the short term cheaper.

For instance, the $9.1 million a year for 20 years is obviously cheaper in terms of our scoring and in terms of your agency's having to be obligated to—having budget authority against what you can spend, but it may well not be cheaper, as you point out, in terms of what you got at the end of 20 years, what the taxpayer invested and what is left over at the end of the year. It is like leasing a car. You don't have anything to trade in.

Mr. THACKER. I think that has been the General Accounting Office's view just as you described it, yes.

Mr. HOYER. Jim.

Mr. LIGHTFOOT. Thank you, Mr. Chairman. Before I start I would like to ask unanimous consent. Mr. McDade has some questions he would like submitted at the appropriate place in the record.

Mr. HOYER. Without objection.

SCORING IMPLICATIONS

Mr. LIGHTFOOT. Continuing on with your line of questioning, Steny, if we own a building and we get down the road or on a—the lease/purchase type thing where there is some trade-in value so to speak, and a building gets to the end of its useful life as far as it is going to be too expensive to renovate, it is in the wrong location, circumstances have changed, how does the value of that building figure into the whole scoring process? Do we carry that on the books as far as X number of dollars or what do we do with it?

Mr. THACKER. I believe that, at least in two of the examples, the dollar amounts scored represent a present value for the particular project, which does take into account a residual value of the facility and the land too, I believe. Is that correct, David?

Mr. BIBB. I don't believe so.

Mr. THACKER. They don't develop a present value?

Mr. BIBB. There is a present value calculation, but on the amount that is actually scored, I don't believe, and Debi can correct me, there is a reduction for the residual value. In comparing up-front the analysis we do under OMB Circular A–94, own versus lease versus finance over time, there is a deduction when you make that choice as to which is the best course of action from a purely economic standpoint. A reduction is taken for residual value on that analysis.

Mr. LIGHTFOOT. Go ahead, Paul.

BUILDING REINVESTMENT

Mr. ZOELLNER. I thought you were asking—it may be a broader question. When we have ownership and we have buildings that are 40 years old, 60, 70 years old, before we reinvest in that building, we do look at what the value is, whether or not is it economically practical to reinvest in that building. If not, we dispose of it.

Typically, most of our buildings are structurally sound. It is just a question of the mechanical, electrical, plumbing, heating parts of the building that have to be replaced, like in any other construction, any other building. So there is an analysis that is done every time we do a reinvestment and if we find that over the life cycle it is more expensive to repair or alter or upgrade that building than it would be to do one of the other alternatives, new construction or leasing, whatever it might be, then the decision would be no-go, just don't do it.

DISPOSAL OF PROPERTY

Mr. LIGHTFOOT. What happens when you dispose of the building? Do you sell it on the public market? What do you do to get rid of it and what do you do with those funds?

Mr. THACKER. The disposal is handled by another arm of the General Services Administration which handles disposal of property for the whole Federal Government, not just for the Public Buildings Service, and that process does include at the end, if there is no further government use for the property, it goes on sale to the public, and those funds then are deposited, I believe with the Treasury, in a special account.

Ms. SCHILLING. The Land and Water Conservation Fund of the Department of Interior.

Mr. THACKER. Those funds do not come back to the Federal Buildings Fund.

RATIO OF GOVERNMENT-OWNED TO LEASED SPACE

Mr. LIGHTFOOT. Earlier on you talked about how the ratio of owned versus leased used to be 75/25. You are not at 55/45. I think last year your testimony was that you wanted to get back to this 75/25 percentage between leased and owned. Are you still sticking with that, or if not, have you changed your mind, or where are you in that area?

Mr. THACKER. I will ask David Bibb to answer more fully, but in general I think the feeling is that after looking at the whole inventory, that about 75 percent of it is stable enough and in the right place, that we are going to be there for a long time, but David can answer.

Mr. BIBB. That is correct. The preferred ratio does remain 75/25, but as Gerry said, that takes into account a stable inventory. There are some markets where you want to continue to lease, so that contributes to a part of the 25 percent. Even in some of our larger markets, we don't want to put all of our eggs into a government-owned basket. We want flexibility as the government goes up or down to cancel some of those leases. We recognize the trend line is going in the opposite direction from where we want to be.

It is certainly a fair statement to say that in the situation where all capital projects, construction or purchase, are scored up front, and Gerry I think indicated we can afford a modest construction or buy program, it would take a long, long time, many, many years to make a lot of progress toward reaching that 75 percent goal.

So although it is a long-term goal, we don't think there is any way to get there, at least in the short term.

Mr. THACKER. Again, the revenues available to the fund come entirely from rental payments set at commercially equivalent rates. That means that about 45 percent of the inventory of space, which is leased space, doesn't generate any net revenue into the Federal Buildings Fund. That is pretty much a pass-through. About 55 percent of the space, which is government-owned then, is having to carry the entire capital program, or generate funds for the capital program, so it is very difficult to get out of the hole.

Mr. LIGHTFOOT. Looks like that puts you in a difficult position in that you are trying to get the most bang for the buck, but at the same time you have to own the property in order to get those revenues to flow back through.

Mr. THACKER. Yes.

PRIORITIZATION OF CAPITAL PROJECTS PLANNING PROCESS

Mr. LIGHTFOOT. What kind of guidelines do you apply to that when you have to decide to go one way or the other?

Mr. THACKER. I think David, again as Assistant Commissioner for Planning, can talk about the variables to look at on each project, trying to prioritize which ones do get into the capital program and which ones don't.

Mr. BIBB. It calls for tough calls on our part, and yours too, when the budget arrives here. Basically we will look at each project to determine what is the best way to go in our opinion, and that may be cash up front to own. It may be to lease or whatever. Once we have validated what we consider to be the valid projects, our Planning and Project Review Board, composed of top management, will attempt to rank them top to bottom.

The first pass we make on those, we will set aside what we consider to be critical repair and modernization. GAO has indicated we need to pay attention to that. We believe we do too. So we will set aside somewhere in the order of 2 percent of the replacement value of our inventory, about $400 to $500 million for critical repairs and alterations. What you are left with then is something in the neighborhood of $600 million for new construction and building purchases.

We rank new construction and major modernizations top to bottom based on what we call a profitability index. We will compute the income stream to the Federal Buildings Fund, divide that by the project costs, and from a business standpoint, the higher that ratio is, the better a money maker the project is. So, casting aside other programmatic factors, urgency of space need, and other factors like that, we rank them on a profitability index, but we do recognize there are other things that enter into the need to proceed with a project.

Maybe you have a court, for example, which is bursting at its seams versus another court where they can get by another couple of years. So as a final overlay we will run what we call an adverse consequences check. If the project is on the bottom of a list from a purely financial standpoint, but will harm the government by not getting done, we will move it up the list. That is basically how we rank them and make our decisions.

Once we have used up the available funds within the Federal Buildings Fund, we then have a choice to make. We can defer that capital project but we can't defer housing the agency. That is where we differ from some programs. The agency must be housed, so our choice becomes defer the capital project and leave people in temporary, sometimes expensive leased space, or enter into a longer term lease, which we recognize may not be the best economic solution. But, because of availability of capital, sometimes that is the only solution to meet the housing need.

CHILD CARE FACILITIES

Mr. LIGHTFOOT. One of the things that—switching gears here a little bit—one of the things that we are seeing now in the private sector, is that a number of businesses are starting to provide day care services, that type of thing for their employees. Where you serve a huge number of federal employees, and we know there has been some activity in that area, is that being taken into consideration in the new planning, and if so, to what extent?

Mr. THACKER. Yes. In fact, if we could have just a second and we can give you some specifics about what is being done. You may want to go into more detail. The Public Buildings Service is not primarily responsible for the program but we can give you some infor-

mation about what is going on and how many there are. There are 91 child care centers in GSA space serving 6,600 children with a 50 percent growth in the past three years.

Mr. HOYER. Fifty percent growth in the number of centers?

Mr. THACKER. In the number of centers in the past—I believe that number indicates number of centers in the past three years.

Mr. HOYER. Number of child care centers?

Mr. THACKER. And 6,600 plus children in the centers.

Mr. LIGHTFOOT. Are those mostly here in the D.C. area?

Mr. THACKER. No. They are scattered throughout the country. If I wear my other hat for a minute, there are a number that are being put into federal courthouses, in fact. We were sort of one of the last of the tenants to move on to the program and it has been one that has been quite well received, despite, as you can imagine, the kinds of security problems it might cause. Almost every new courthouse project at least attempts to incorporate a child care center, usually not doing so only because there isn't enough interest, aren't enough potential clients to make it feasible.

Mr. LIGHTFOOT. I guess that will hold me for a little while, Mr. Chairman, thank you.

Mr. HOYER. I have questions on child care facilities for the record from Mr. Wolf. I will ask that you answer them.

[The questions follow:]

QUESTIONS FOR THE RECORD FROM MR. FRANK R. WOLF

CHILD CARE

QUESTION: Last summer, GSA held its third annual child care conference in Kansas City. Could you tell the committee what was learned from that conference?

ANSWER: Building managers were eager for additional information concerning facility designs, appropriate playground designs and playground maintenance. Buildings managers were also interested in their responsibilities in relationship to governing boards, providers, and Regional Child Care Coordinators. GSA's responsibility to ensure providers adhere to the requirement of the licensing agreement was an additional area of interest.

We also learned that governing boards which consist primarily of parents lack both business knowledge and child care expertise to operate child care centers. Governing boards were provided training on board composition and functioning.

Agencies are relying more heavily than ever on GSA Regional Child Care Coordinators and the Office of Child Care and Development Programs for guidance and technical assistance from the initial planning stages through the ongoing operation of the centers.

We learned that the roles of agency liaisons need clarification. Our evaluations indicated that providers are enthusiastic about participating in GSA's child care system and look to GSA for guidance. Child care providers and staff are anxious to attend training related to the Federal program and learn about policies to enable them to more fully meet our needs.

Regional Child Care Coordinators were able to meet with their regional clients including agency representatives and providers. The conference also afforded the opportunity for the Regional Child Care Coordinators to meet as a group with Central Office. The conference is an excellent opportunity for networking and sharing experiences.

QUESTION: In 1991, GSA had 71 child care facilities. In 1992, there were 92. How many will there be in 1993? Could you provide for the record a list of existing child care centers, planned expansions to existing centers and planned new centers?

ANSWER: At the end of calendar year 1992 there were 92 child care centers in GSA space. Today there are 91 centers since GSA dropped out of our participation in the consortium with the City of Los Angeles center when the child care facility in the Roybal building was constructed. Our projections for the next three years are as follows:

By the end of FY'93 there will be 6 additional centers.

Possible new centers FY'94 = 16;
Possible new centers FY'95 = 11.

Planned expansion are as follows:

7 centers in FY'92
13 centers in FY'93*
3 centers in FY'94
* 3 of these centers are stage 2 expansions

All projects are subject to agency resources.

A list of expansions and new construction is attached.

QUESTION: Last year, GSA created child care "mini-centers" -- centers designed to provide quality child care to serve employers whose numbers don't warrant a traditional child care center.

- How well is that program working?
- Where are these "mini-centers" located?
- Are there plans to open more of this type of center?

ANSWER: Interest has been shown by several agencies. GSA would like to publish our mini-center guide this month. Two mini-centers are currently being planned. GSA will meet their clients' needs to establish a child care center whenever a mini-center is justified and resources are available.

UNITED STATES GENERAL SERVICES ADMINISTRATION
OFFICE OF CHILD CARE AND DEVELOPMENT PROGRAMS

REGIONAL CHILD CARE COORDINATORS
AND
CHILD CARE CENTERS OPERATING IN GSA SPACE

REGION 1&2 COORDINATOR: Eileen Stern
26 Federal Plaza
New York, NY 10278
212/264-3300

IRS Service Center — 508/474-5431
310 Lowell Street
Stop 237
Andover, MA 01810
Center Name: ANSC Childcare Corporation

JFK Federal Building — 617/742-5171
Room G-54
Boston, MA 02203
Center Name: Government Child Care
Center Corporation

Thomas P. O'Neill Federal Building — 617/523-8118
10 Causeway Street
Boston, MA 02222
Center Name: Government Child Care
Center Corporation

IRS Service Center — 203/525-8798
135 High Street
Hartford, CT 06103
Center Name: Federal Child Care Center

Waltham Federal Center — 617/647-7763
Army Corps of Engineers
424 Trapelo Road
Building 110
Waltham, MA 02254-9149
Center Name: Bright Horizons

Kenneth B. Keating Federal Building and Courthouse — 716/546-7070
100 State Street
Rochester, NY 14614
Center Name: First Steps Child Care, Inc.

James M. Hanley Federal Building 315/423-9165
100 South Clinton Street
Room 169
Post Office Box 7196
Syracuse, NY 13260
Center Name: Clinton Street Day
Care Center

Jacob K. Javits Federal Building 212/264-4277
26 Federal Plaza
New York, NY 10278
Center Name: Fed Kids Child Care Center

Leo W. O'Brien Federal Building 518/472-4593
1 Clinton Plaza, B-38
Albany, NY 12207
Center Name: Club Federal Child Care Center

Peter W. Rodino, Jr. Federal Building 201/645-0646
Room 107
970 Broad Street
Newark, NJ 07102
Center Name: Newark Federal Kids-Care, Inc.

REGION 3 COORDINATOR: Jill Lehman
Wannamaker Building
3 PMFS
100 Penn Square East
Room 720
Philadelphia, PA 19107-3396
215/656-5994

Veterans Administration Federal Building 215/951-5554
P.O. Box 13399 VAROIC
Philadelphia, PA 19101
Center Name: Academy for Early
Learning Center

William F. Greene Federal Building 215/627-1081
600 Arch Street
Room 1211
Philadelphia, PA 19106
Center Name: The Learning Tree Child Care
Center Independence Mall

William F. Moorhead Federal Building 412/281-1330
1000 Liberty Avenue
Pittsburgh, PA 15222
Center Name: Wee The People Day
Care Center, Inc.

Roosevelt Federal Building 215/969-2144
11501 Roosevelt Boulevard
DP 701
Philadelphia, PA 19154
Center Name: Sound Start/UpStart Corp.

Fallon Federal Building 401/727-1785
200 West Lombard Street
Suite A
Baltimore, MD 21201
Center Name: Fallon Federal YWCA
Child Care Center

IRS Service Center 304/264-7132
P.O. Box 1208
Martinsburg, WV 25401
Center Name: Little Eagle Child Care Center

Social Security Administration 410/966-0401
300 Greene Street
1-P-9 South
Baltimore, MD 21201
Center Name: Social Secure-A-Kiddie Child Care
Center-Metro West

Social Security Administration 410/965-3232
2B2 Operations Building
6401 Security Boulevard
Baltimore, MD 21235
Center Name: Social Secure-A-Kiddie/Woodlawn

REGION 4 COORDINATOR: Brenda Rice
Suite 2800
4AC
401 West Peachtree Street, NW
Atlanta, GA 30365
404/331-1850

Strom Thurmond Federal Building 803/779-7200
1835 Assembly Street, Room 113
Columbia, SC 29201
Center Name: Adlerian Child Care Center

IRS Service Center 606/292-3280
203 West 2nd Street
Covington, KY 41011
Center Name: The Treasure House

Peachtree Summit 404/331-1600
401 West Peachtree Street, NE
Box 26
Atlanta, GA 30308
Center Name: Summit Child Care Center

Federal Building 502/582-6646
600 Martin Luther King, Jr. Place
Louisville, KY 40202
Center Name: Uncle Sam's Place

IRS Service Center 404/451-3488
2355 Chamblee Tucker Road
Chamblee, GA 30341
Center Name: Shadyland Childcare Center

McKoy Federal Building 601/965-4999
100 West Capitol Street
Jackson, MS 39269
Center Name: The Little Acorns Child
Development Center

200 Healy Building 404/331-7518
57 Forsythe Street, NW
Atlanta, GA 30303
Center Name: The Downtown Child
Development Center

REGION 5 COORDINATOR: Liz Themelis
A.J. Celebrezze Federal Building
Room 769
1240 East 9th Street
Cleveland, OH 44199
216/522-4963

Battle Creek Federal Center 616/963-5598
100 North Washington Street
Battle Creek, MI 49017
Center Name: The Little White House
Child Care Center

PV McNamara Federal Building 313/226-4999
477 Michigan Avenue
Number 110
Detroit, MI 48226
Center Name: Bright Horizons

Whipple Federal Building 612/726-1046
1 Federal Drive
Room G-25
Ft. Snelling, MN 55111-4007
Center Name: New Horizons Childcare

Customs House 312/353-8687
610 S. Canal Street
Chicago, IL 60607
Center Name: CCC Learning Center

Minton - Capehart Federal Building 317/226-5487
575 N. Pennsylvania Street
Indianapolis, IN 46204
Center Name: Day Nursery - Federal Center

Anthony J. Celebrezze Federal Building 216/522-4453
1240 East 9th Street
Post Office Box 99825
Cleveland, OH 44199
Center Name: Cleveland Fed Kid Child
Care Center

Federal Courthouse and Custom House 218/723-1667
515 West 1st Street
Duluth, MN 55802
Center Name: University Nursery
School Downtown

Everett Dirksen Federal Building 312/427-3342
219 S Dearborn Street
Chicago, IL 60604
Center Name: CCC Learning Center

O'Hare Office Plaza 708/803-5181
2300 East Devon
Suite 171
Des Plaines, IL 60018
Center Name: Lutheran General
Children's Day Care

John W. Peck Federal Building 513/684-2046
550 Main Street
Room 1016
Cincinnati, OH 45202
Center Name: US Kids Child Care Center

Ralph H. Metcalf Federal Building 312-886-0834
78 West Van Buren Street
Chicago, IL 60604
Center Name: CCC Learning Center

REGION 6 COORDINATOR: Ms. Peggy Rodriguez
6PM
Federal Building
1500 East Bannister Road
Kansas City, MO 64131
816/926-7241

Robert Denney Federal Building 402/476-7644
100 Centennial Mall, North
Room 104
Lincoln, NE 68508
Center Name: Centennial Mall Child
Care Center

Federal Building
816/421-3895
601 East 12th Street
Kansas City, MO 64131
Center Name: Corporate Kids

Federal Building
515/284-6650
210 Walnut Street
Room 109
Des Moines, IA 50309
Center Name: Uncle Sam's Developmental
Day School

Bannister Complex, Building 52 816/926-1616
1500 East Bannister Road
Kansas City, MO 64131
Center Name: Bannister Complex Child
Development Center

Edward Zorinsky Federal Builidng 402/341-7433
215 N. 17th Street
Room 1003
Omaha, NE 68102
Center Name: Edward Zorinsky Child
Care Center

Robert A. Young Federal Building 314/539-3437
1222 Spruce Street
St. Louis, MO 63103
Center Name: Rainbow Castle, Child
Development Center

Federal Center Building 104E 314/263-3437
4300 Goodfellow
St. Louis, MO 63120
Center Name: Uncle Sam's Kids

Federal Records Center Complex 314/538-4016
Building 100
9700 Page Boulevard
St. Louis, MO
Center Name: Just U.S. Kids

REGION 7 COORDINATOR: B. J. Upton
7PMA
819 Taylor Street
Fort Worth, TX 76102
817/334-8451

Alfred P. Murrah Federal Building 405/231-4808
200 N.W. 5th Street
216
Oklahoma City, OK 73102
Center Name: U.S. Kids

Fort Worth Federal Center 817/334-5228
4750 Barwick Street
Post Office Box 6567
Fort Worth, TX 76115
Center Name: A Child's Place

IRS Service Center 512/462-8233
3819 South IH 35
Austin, TX 78741
Center Name: Future Stars Child
Development Center

Federal Building 214/748-6077
207 South Houston Street
Dallas, TX 75202
Center Name: Stars And Tykes

Concorde Tower 713/759-0440
2001 Louisiana Avenue
Houston, TX 77002
Center Name: Concorde School Child
Care Center

REGION 8 COORDINATOR: Jacki Fling
P.O. Box 25546
Denver, CO 80225-0546
303/236-7201

Denver Federal Center 303/233-5244
P.O. Box 25466
Denver, CO 80225
Center Name: Developmental Day School

IRS Service Center 801/625-7547
P.O. Box 9162
Ogden, UT 84409
Center Name: OSC Child Care Center

Federal Building/Colonnade Center 303/844-2428
1244 Speer Boulevard
170
Denver, CO 80204
Center Name: Clever Kids Learning Center

Federal Building/Custom House 303/844-6514
721 19th Street
Denver, CO 80204
Center Name: Custom House Children's Center

REGION 9 COORDINATOR: Tim Timberlake
9PED
525 Market Street
San Francisco, CA 94105
415/744-5515

Chet Hollifield Federal Building 714/643-4258
24000 Avila Road
Laguna Niguel, CA 92656
Center Name: Ziggurate Child
Development Center

Federal Building 808/537-9351
300 Moana Blvd.
Honolulu, HI 96850
Center Name: Hoku Le'a School's, Inc.

Federal Building
2800 Cottage Way 916/971-4134
Sacramento, CA 95825
Center Name: Kids-On-Kampus Cottage Kids

U,S. Geological Survey 415/329-4234
345 Middlefield Road
Menlo Park, CA 94025
Center Name: GEO Kids

Hawthorne Building 415/882-9157
95 Hawthorne Street
San Francisco, CA 95105
Center Name: Hawthorne Child Care Center

Roybal Federal Building 213/894-1556
255 West Temple Street
Los Angeles, CA 90012
Center Name: Harry Pregerson Child Care Center

REGION 10 COORDINATOR: Eric Williams
400 15th Street, SW
Auburn, WA 98001
206/931-7774

GSA Center, Building 812 — 206/939-0234
400 15th Street, SW
Auburn, WA 98001
Center Name: Willow Place Child Care Center

Park Place Building — 206/553-8212
1200 6th Avenue
Suite 200
Seattle, WA 98101
Center Name: Green Tree Child Care Center

Federal Center South — 206/767-5797
4735 E. Marginal Way South
Seattle, WA 98134
Center Name: Tall Cedars Childcare

Multnomah Building — 503/294-0847
333 SW 1st Street
Suite A
Portland OR 97204
Center Name: Joyful Noise Child Care
Center, Inc.

Federal Building — 503/230-4114
P.O. Box 3621
BPA-SPR-2
Portland, OR 97208
Center Name: Children's Holladay Center

Federal Building & U.S. Courthouse — 907/276-8953
545 East 5th Avenue
Anchorage, AK 99501
Center Name: Tundra Tykes Child Care

The Bus Barn
540 Oak Street — 509/344-0241
Eugene, OR 97401
Center Name: Oak Street Child
Development Center

U.S. Forest Service — 206/754-6428
1815 Black Lake Boulevard, SW
Olympia, WA 98502
Center Name: Cradle to Crayon Child
Development Center

Federal Building 503/757-4368
200 SW 35th Street
Corvallis, OR 97333
Center Name: Joyful Noise II

Department of Energy 509/946-4609
1167 Jadwin Avenue or 4278
Richland, WA 99352
Center Name: The Learning Landscape

NCR COORDINATOR: Cheryl DeAtley
Regional Office Building
Room 7921
7th & D Streets, SW
Washington, DC 20405
202/708-7250

Department of Housing and Urban Development 202/778-1935
451 7th St., SW
Room B-278
Washington, DC 20410
Center Name: Creative Child Development Center

Department of Education 202/401-0466
400 Maryland Ave., SW
Room B-047, FOB 6
Washington, DC 20202
Center Name: Reed Learning Center

Department of Health and Human Services 202/488-3362
200 Independence Ave., SW
Room 100 F
Washington, DC 20201
Center Name: HHS Child Development Center

Department of Labor 202/219-8553
200 Constitution Ave., NW
Room 1453
Washington, DC 20210
Center Name: DOL Child Care Center

Department of Transportation 202/267-7672
800 Independence Ave., SW
Washington, DC 20591
Center Name: DOT Day Care Center, Inc.

General Services Administration 202/501-1945
18th and F Streets, NW
Room 1028
Washington, DC 20405
Center Name: Fingerprints Child Development Center

Environmental Protection Agency 202/260-7290
401 M Street, SW
Washington, DC 20460
Center Name: Early Environments Child Development Center

Silver Hill Executive Plaza Building 301/899-0501
3701 St. Barnabus Road
Suitland, MD 20746
Center Name: Bureautots Child Care Center

General Services Administration 202/708-4886
Regional Office Building
7th & D Streets, SW
Washington, DC 20407
Center Name: The Creative Child Development Center

Department of Commerce 202/482-1587
Herbert Clark Hoover Building
15th and Pennsylvania Avenue, NW
Washington, DC 20230
Center Name: DOC Child Care Center

Federal Trade Commission 202/326-2088
6th & Pennsylvania Avenue, NW
Room 136
Washington, DC 20580
Center Name: FTC Child Care Center

IRS Building 202/622-4340
1111 Constitution Avenue, NW
Washington, DC 20044-0742
Center Name: National Office Child Development Center

Union Center Federal Building 202/208-0610
825 N. Capitol Street, NE
Washington, DC 20426
Center Name: Martha O. Hesse Child Care Center

U.S. Geological Survey 703/476-2341
530 Huntmar Park Drive
Suite 800 B
Herndon, VA 22070
Center Name: Federal Children's Center of Northern Virginia, Inc.

National Center for Health Statistics 301/436-4283
6525 Belcrest Road
Room G-80
Hyattsville, MD 20782
Center Name: First Impressions Child
Care Center I

Department of Agriculture 202/205-1133
Auditor's Building
14th & Independence Avenue, SW
Washington, DC 20250
Center Name: La Petite USDA Child
Development Center

Department of Energy 202/586-6800
Forrestall Building
1000 Independence Avenue, SW
Washington, DC 20585
Center Name: Energy Child Development
Center

Combined Federal Agencies 202/233-4623
1425 New York Avenue, NW
Washington, DC 20005
Center Name: U.S. Kids Child Development
Center

Department of Justice 202/219-3200
625 Indiana Avenue, NW
Washington, DC 20531
Center Name: Just Us Kids

Transpoint Building 202/267-6075
c/o Commandant (G-CAS-2)
2100 2nd Street, SW
Washington, DC 20593
Center Name: Our Kids Coast Guard
Child Development Center

Public Health Service 301/443-0161
5510 Fishers Lane
Rockville, MD 20857
Center Name: Healthy Beginnings Child
Care Center

Department of Energy 301/903-8600
19901 Germantown Road
Germantown, MD 20545
Center Name: Germantown Child
Development Center

Mr. HOYER. Mr. Visclosky.

FUNDING FOR COURTHOUSE PROJECTS

Mr. VISCLOSKY. Thank you, Mr. Chairman. Mr. Thacker, in the 1993 budget request, excluding four major Washington projects, about 83 percent of the requests of funds were for courthouse projects.

Mr. THACKER. Right.

Mr. VISCLOSKY. Why is such a large proportion of the GSA's overall building budget, again, exempting those four major projects, devoted to courthouse projects?

Mr. THACKER. I will wear my other hat again if I may.

Mr. VISCLOSKY. Why don't you keep it on for awhile?

Mr. THACKER. There were never federal courthouses built in this country. We have looked in recent years at the history of federal courts throughout the country. In fact, there is a very good study done about federal courts in Massachusetts. Federal courts sat in everything from taverns to old Masonic temples.

In the 1920's and 1930's they became tenants in multi-tenant buildings. The post office-courthouse was the standard federal building in most communities. There were a lot of those built in the 1870's. There was a major building program in the early 1900's. There was another one carrying over into the 1920's. There of course was another fairly large one in the 1930's.

But these were all multi-tenant, multipurpose buildings, again usually post offices-courthouses. There has been, for the most part, no major federal courthouse construction done since the 1930's, again, in a very big way.

From 1980 to 1990, in that decade, GSA spent about $660 million total on federal courthouse construction, ten-year period, $66 million a year or so.

Mr. VISCLOSKY. Over a ten-year period?

Mr. THACKER. I believe that was 1980 to 1990.

Mr. VISCLOSKY. Construction really started in 1980?

Mr. THACKER. Beginning in 1978 there was the first of two omnibus judgeship bills, that is, creation of new judgeships on a large scale, Article III judgeships. 1978 was a very big one. There was another one six years later, 1984.

What we found happening then, beginning with a very serious look at the problem in 1986 with the National Academy of Public Administration, is that those buildings that were built in the 1930s were totally full. All of the federal agencies had been moved—executive branch agencies were being moved out of the buildings. Many of the bankruptcy court functions of the District Court had been relocated from many of the buildings, and many of the buildings, even the U.S. Attorney, had been relocated into leased space.

U.S. Attorneys were growing very quickly as well. So that study initiated an effort to look at every facility occupied by the federal courts nationwide. We had looked at about two-thirds of the country, about 67 or 68 of the 94 districts nationwide.

Mr. VISCLOSKY. When you are saying we, you are wearing your GSA hat now?

Mr. THACKER. The federal courts, in conjunction with the General Services Administration, have looked at 67 or 68 of the—I say

roughly because we are doing about two of these a month trying to finish up all 94 districts, and we had substantiated what I think everyone felt, and that is, these buildings were totally full and that they left judicial officers or court staff with no place to work.

So that has, for the most part, provided the documentation the Congress needed to begin a major courthouse construction program, truly the first in the country's history. What we have now, depending on where you start counting, is something in the neighborhood of 70 federal courthouse projects under construction or design or in the planning stages nationwide.

Now, some of that space certainly—a large portion of that space is for the Justice Department, the U.S. Marshals Service and the U.S. Attorney, and the space that is not immediately needed for the federal courts, future expansion space, is being used by executive departments and agencies as the buildings are being completed.

We will probably see the first of those buildings coming on line in a year or so. To answer your question, yes, most of the construction has been, for the past three years, federal courthouse projects.

RATIO OF GOVERNMENT-OWNED TO LEASED SPACE FOR JUDICIAL BRANCH

Mr. VISCLOSKY. You mentioned construction a couple of times. We have seen the ratio of owned to leased space that we have talked about previously in terms of all federal space, which by and large is simply executive and judicial, slip from 75/25 to 55/45. Would it be my impression then that this ratio is inverse to that in terms of the way it is going for the federal judiciary?

Mr. THACKER. It will be in the future, yes. That is, we are in a good bit of leased space now in the federal judiciary. Certainly nowhere near the ratio that is described for the rest of the government. We are well above the 55/45 ratio, again, because—the federal judiciary usually would be the last to be in a federally-owned building.

Everyone else is moved out because of the cost of building court space. The U.S. Bankruptcy Court, which has undergone a major expansion in the past 10 years, as well as the support offices for the federal courts, U.S. Probation Office, pretrial services offices are in leased space, almost as a routine all around the country, which is not entirely inappropriate.

Probation offices are for the most part community oriented. That is, there are a number of them in any district and it is not inappropriate at all for them to be in leased space, just rather difficult to find them leased space.

Mr. VISCLOSKY. So today the judiciary is well under the 45 percent average for the government in terms of leased space.

Mr. THACKER. Of government-owned space. I meant to be clearer. We have a much higher ratio of the federal judiciary in government-owned space than the government altogether has. Most of the space occupied——

Mr. VISCLOSKY. So the judiciary is over 55 percent government owned, despite the fact that historically, including the period of

construction of joint projects in the 1920's to 1930's, you were considering it owned space.

Mr. THACKER. Yes. Government owned, yes. Because the federal courts remain in these older buildings.

Mr. VISCLOSKY. So the real driving forces here are numbers of new judicial officers, as well as support staff?

Mr. THACKER. Staff and U.S. Attorneys, yes.

Mr. VISCLOSKY. Do you have any estimates in terms of the space ratio that was mentioned earlier if half of the owned inventory is more than 40 years old, what that ratio in inventory would look like for the federal judiciary?

Mr. THACKER. I think it would probably be higher.

Mr. VISCLOSKY. Higher than half would be more than 40 years old?

Mr. THACKER. Yes, I think so. That is a good question. I don't know. I can answer that in a sort of a round about way. I think of 330 or 340 federally-owned buildings that house the federal courts, probably half of them are on or eligible for the National Register of Historic Places.

Mr. VISCLOSKY. Regarding the construction during the last 10 years or so, could you, for the record, provide us with the ratio as to how much new space was provided for the judiciary and how much leased space and how much of the new space was provided on an ownership basis?

Mr. THACKER. Sure.

[The information follows:]

U.S. COURTS IN BUILDINGS ACQUIRED SINCE 1983

In buildings added to GSA's owned inventory in the 10 years from 1983 to 1992, GSA has added 9,940,963 occupiable square feet. Of that amount 484,864 square feet, or 4.9 percent of the total, is currently assigned to the U.S. Courts. During that same time period a total of 63,076,687 occupiable square feet was acquired in leased buildings new to the inventory. Of that amount, 2,015,480 square feet, or 3.2 percent of the total, is currently occupied by the U.S. Courts. The total amount of space assigned to the U.S. Courts increased from 10,485,000 square feet in fiscal year 1982 to 15,907,000 in fiscal year 1993, a 5,422,000 square feet increase. Most of this growth occurred in buildings which have been in GSA's inventory for over 10 years. There are currently 20 new construction projects under way, 11 of which contain Courts and Courts related activities.

OWNERSHIP OF JUDICIAL BRANCH SPACE

Mr. VISCLOSKY. Would you refer back to last year's testimony by the General Services Administration that indicated if we had full funding of these $6 billion five-year programs, one scenario, and apparently this is GSA's representation, would be that we could fund all new construction of courthouses and lease space for all other federal agencies.

What was the genesis of that suggestion and what was the rationale that executive branch agencies should have leased space and judicial branch agencies should have owned space?

Mr. THACKER. I can answer that only partially, not having been part of the decision and certainly David or Wolfgang may want to answer another part. I think if there are buildings that meet any criteria for ownership in terms of uniqueness and longevity, it is federal courts. So, I think in almost any set of criteria that you

want to develop for when to lease, when to own, that federal courts would fall into the ought-to-own category.

The information we had developed about the number of courthouses or court spaces that needed replacement, the inventory of space needing replacement over the next 10 years, was in the $7 to $8 billion range, assuming that we are going to build a building that would last at least 10 years after it was occupied and using the Justice Department's projections of its own need, not the judiciary's, so that number may have been generated by that analysis, but——

Mr. BIBB. Well, there are other factors that play into this. Courthouses are really very specialized types of construction, including high ceilings, separate circulation systems for the judges, the prisoners and the public. You can't go out into a rental market and find that kind of space, and most buildings simply can't be adapted, even structurally, to handle the kind of clear span that you need for the large courtrooms.

Even if you were able to find that in the rental market, the cost to rent that would be astronomical.

Mr. THACKER. Because of the lease term.

Mr. BIBB. Because of the lease term. As a further complicating issue, even if it were economical, going back to the scoring test, in all likelihood you would be creating new construction. If you are going to recover the costs of that construction over the term of the lease, which is one of the eight criteria that Mr. Thacker read, you will have the project scored as a capital lease. Then your decision becomes, well, if it is going to be scored all up front anyhow, I would prefer to own it.

So those factors all enter into lease decisions.

Mr. THACKER. I don't think that anyone, though, would argue that the courts are the only tenants of GSA that should be in government-owned space. I think that statement may have had more to do with the limits on the Federal Buildings Fund availability of capital funds rather than on a decision that there are executive departments and agencies that shouldn't be in government-owned space.

That obviously is not true, because there are many specialized spaces, even general purpose office space, if it represents a very stable environment, obviously over the long term is less expensive to own, according to GAO, than it is to lease. So I think it was probably more constrained by the availability of funds.

UNIQUE REQUIREMENT OF JUDICIAL BRANCH

Mr. VISCLOSKY. There is a lot of talk—Mr. Chairman, I have two more questions on this subject—a lot of discussion about the uniqueness of the judiciary's need and its longevity in certain locations. Is that uniqueness at times causing problems with the executive branch and GSA's relationship with the judiciary generally in that the uniqueness is carried too far in terms of special needs that they may have?

The word unique was used here. Special circumstances regarding space between ceiling and floors were mentioned. Is that perhaps at times carried too far and has it caused concern to the executive

branch in terms of the relationship with the needs and potential requests by the judicial branch?

Mr. THACKER. Are there disagreements? Are you asking about a particular project, about the design of that project and——

Mr. VISCLOSKY. That pose special difficulties to members of the executive branch in dealing with the separate branch of the government.

Mr. THACKER. You are asking a question in many facets.

Mr. VISCLOSKY. Generally, would it be the experience of the General Services——

Mr. THACKER. Yes, there is conflict. I think on individual projects, it varies from project to project.

Mr. ZOELLNER. All I was going to add is that there is a design guideline that was developed by the courts. We accommodate that design guideline. We build to whatever is stated in that design guideline.

Over and above that, there are often cosmetic issues that come up that even though they are reimbursable, they become an issue of discussion. You could question the design guideline itself. We have input to that but we don't challenge if the ceiling height is going to be 24 feet for District Court. We have accepted that.

Mr. THACKER. Which it is not, by the way.

Mr. VISCLOSKY. Which leads me to my last question. I have been in a lot of courthouses in my day, some have high ceilings, some have very low ceilings. Not only potentially do you save construction costs with lower ceilings but potentially long-term operating costs in terms of heating and ventilation systems.

Is it time to begin to review some of the criteria that are used for the judicial branch in the configuration of what these courtrooms look like inside? Perhaps we don't need ceilings that are as high, for example?

Mr. THACKER. Well, again, I will——

Mr. VISCLOSKY. I am trying to save some dollars.

Mr. THACKER. I will give my opinion and certainly the members of the staff can chime in. The standards were developed over a four-year period with input from private consultants, architects and engineers and acoustical, electrical, mechanical consultants. It was overseen by the National Institute for Building Sciences.

It was a functional look at how federal courts operate and the kinds of spaces in which they carry out their functions. The ceiling heights, if that is of particular concern, and it certainly does have an impact on all of the things that were mentioned in building construction and operation, is not unique to the Federal Government. It is also a pattern for large trial courts at the State and local level on a fairly widespread basis.

We had a review of the input provided by the National Center for State Courts into the design standards as well. They were doing a similar survey for the State court level. So I don't think it is terribly unusual. There were a number of reasons for it, both psychological in terms of what goes on in the space, as well as the placement of the furniture in the space, that is, the judge's bench, the witness box and so on. Your other question, does it deserve looking at, if the committee is interested in it, it certainly deserves looking at.

Mr. VISCLOSKY. That is all I wanted to know. Thank you, very much.

Mr. THACKER. I will be glad to discuss it in more detail.

Mr. HOYER. I understand Mr. Visclosky has a specific interest in terms of having seen some in Indiana.

Mr. THACKER. Sure.

Mr. HOYER. Mr. Darden.

CONSTRUCTION OF POST OFFICES-COURTHOUSES

Mr. DARDEN. Thank you, Mr. Chairman. Gentlemen, first of all, it would seem like the concept of the post office-courthouse in small to medium-sized cities has been a logical one and has served those communities well and I get the impression that you are abandoning this concept. Do you see a future at all for continued construction of this type of facility?

Mr. THACKER. Post office-courthouses?

Mr. DARDEN. Right.

Mr. THACKER. No, for a number of reasons. One, the post office doesn't work the way it used to. They have a different space need than when those buildings were built, and secondly, the General Services Administration no longer plans and constructs post offices. The post office has its own construction program, and they are, I think, almost universally abandoning those kinds of downtown buildings for any sort of mail facility operation. Do you have that impression?

Mr. ZOELLNER. That is absolutely right.

Mr. DARDEN. Medium, small, small to medium-sized.

Mr. ZOELLNER. They are moving their major mail handling out of the downstown areas because they have difficulties getting their trucks tied up in traffic. Usually, they are not totally abandoning the post office building, but they leave a postal station in the building. If the rest of the space is a post office-owned building, they will try to use that space, develop it as a private entrepreneur would for something else, or they will come to us to see whether or not we want to buy the building.

If we have a major court presence in the building, we might buy it from them. That is how it works, but most of the major mail handling in the larger cities is now done in the suburbs near a highway.

Mr. DARDEN. My interest was in the small to medium-sized cities and not the large.

Mr. THACKER. Even there I think they are finding that building a new specialized facility just for mail handling is many times less expensive than trying to maintain some of the older post offices around the country.

Mr. DARDEN. I assume that the post office pays you rent in those post office-courthouse type facilities in which they still survive as a post office.

Mr. THACKER. If it is a building owned by the General Services Administration, and vice versa, if it is a building owned by the Postal Service. There are still a number of buildings around the country that are owned by the Postal Service in which there are

tenants of the General Services Administration, either the judiciary or executive branch agencies.

COST OF CONSTRUCTION IN GOVERNMENT VERSUS PRIVATE INDUSTRY

Mr. DARDEN. On another topic, contractors frequently complain to me, and other Members of Congress, I am sure, that the cost of building buildings for the Federal Government is somewhat higher than it is for a private client or a private corporation. Are these facts correct or are the allegations correct, excuse me, and if so, do we need to take any look at this or is there anything to be done as far as this committee is concerned?

Mr. THACKER. If I could ask Bob DiLuchio, Assistant Commissioner for Real Property Development to talk about that a little bit. I know it is an issue that has come up a number of times.

Mr. DILUCHIO. I guess there are two parts to your question. Let me deal with the first, do we write our own specifications or are we prescribing things that are more costly to build than the private sector would encourage. Back in 1988 or 1989, we completely got out of the specification writing business. There are other federal agencies who are still in it.

We use a private sector specification, the American Institute of Architect's which is a master spec system. It is developed by the private sector. We have also accepted national codes as our standards for building space. When we do build space, such as a courthouse, you will find that it has more permanency than a private sector specific building, for example. It is built for the long haul. There is probably a difference in construction value because of the significantly longer useful life of that building.

From a code standpoint and a specification standpoint we are doing the same as the private sector. From a permanency standpoint, we are building a 40- to 60-year courthouse, as was discussed here earlier today. Secondly, there has been an issue in the construction type technique that we use called design-build, where, in fact, during the procurement competition process there has been a complaint from the Associated General Contractors and others about the cost of preparing a proposal. It is a process that also applies to leasing a building when the leasing market is constructing a facility for us.

Our philosophy is that we ought to be into a two-phase procurement process. First, we ought to look at the general qualifications, experience and other kind of factors of those that are submitting bids. We then should cut that list down to a shorter list. There should be very little or no cost associated with getting in on the front end of the process.

The problem is, there needs to be enough criteria there to discriminate and get the list down to three to five. Then, in the second phase, more detailed presentations, up to a concept design for the project, would be the basis upon which the award is finally made, together with price.

What we are now doing is merging both of those phases. Therefore, when 14 contractors are bidding on a job, perhaps most or all of them are going to a final phase. This is a burdensome process to

use in the analysis and award of a contract. It is time consuming and it is also costly to the private sector.

Because of a sense of competition in the private sector, we are also thinking very seriously about limiting what we would look at during the first phase of our process. As the private sector competes against one another in this process, each brings more of a perception that they can win the project award.

For example, in New York we had the full Foley Square complex of an 800,000 square foot office building together with an 800,000 square foot courthouse. We paid a stipend that totalled around $630,000 to the three finalists. So the amount that they are bringing in voluntarily is also contributing to it, so it is a fix we need to make.

[CLERK'S NOTE.—The Department provided the following additional information: "Even then, competitors claimed their costs were in excess of $1 million each. So the amount of data they are bringing in voluntarily is a problem. We need to fix that."]

Mr. DARDEN. Are there any completed or ongoing studies about the cost of doing construction for the GSA or the Federal Government as opposed to the private sector?

Mr. DILUCHIO. Not in the competition stage. Just in the building stage. I am not aware of any detailed studies that would show you that. I think we would stipulate, just look at any federal courthouse and the permanence of that asset versus a commercial building and things may just appear to pop out at you that they would be of significant more cost.

I don't think the cost range goes from any more,—if I were to give a parameter, in the 10 to 15 percent range.

Mr. DARDEN. I will develop it with you a little later on.

Mr. THACKER. The only other thing involved in that is most of the time the project costs for a federal project includes tenant build-outs, the standard tenant build-outs, and that may not always be the case as say in the private sector speculative office building. Again, we are owner/builders, so we are building the space in a finished way. You have to be careful when trying to draw a comparison between the two, the project builder and the federal builder, to see if there is any cost differential.

CONSOLIDATION OF FEDERAL SPACE IN ATLANTA

Mr. DARDEN. And one final question, Mr. Chairman. Gentlemen, as you know, we are undertaking with the leadership of Mr. Lewis from Atlanta, a rather ambitious project in the Atlanta area to consolidate a number of federal offices, bring them together in one location, mostly regional offices for the various government departments there.

What is the status of that project? How is it coming along?

Mr. THACKER. The project, again, is innovative in many ways, as you said. It is being built on a site near the Richard B. Russell Federal Building and the Martin Luther King, Jr. Federal Building. It will be something of a western anchor for a federal, State and local governmental mall that will cover several blocks in downtown Atlanta leading from the Russell Building to the State capital. It is innovative in that it is being built under lease to the Federal Gov-

ernment by the Atlanta Downtown Development Authority with some joint venture arrangement.

We have signed a general memorandum of agreement with the Downtown Development Authority describing the general process in which the project will proceed. They are probably a couple of months away from signing—perhaps a little bit further, from signing a formal lease agreement with the Downtown Development Authority.

But at this point the project is progressing and I think will be one that we all will be very proud of when it is completed.

Mr. DARDEN. Thank you, sir. Thank you, Mr. Chairman.

Mr. HOYER. Mr. Istook.

LEASE OF IRS OFFICES IN OKLAHOMA CITY, OKLAHOMA

Mr. ISTOOK. Thank you, Mr. Chairman. Mr. Thacker, I would like to follow up a bit on what my colleague was asking about differentials between private construction and federal construction. We have a circumstance in Oklahoma City, and I think my staff contacted your office about it, we have a new building in which the IRS offices have relocated. Do you happen to know if that is technically categorized as a capital lease or an operating lease? Do you know on that particular item?

Mr. THACKER. I don't know on that particular one.

Mr. BIBB. It is an operating lease. However, the proposal for that project predated the Budget Enforcement Act and the bulletin on scoring.

Mr. ISTOOK. Those standards came into place on the scoring?

Mr. BIBB. I believe the bulletin came out in 1990 and projects that were authorized prior to the establishment of the bulletin were exempted.

Mr. ISTOOK. Because it had a 1989 authorization date on it. But on the particular one, when you talk about the differentials in the construction cost, your office provided us the information basically estimating that under the 20-year term of the lease, the present value of the payments that will be made is some $37.5 million, whereas you estimated the construction costs would be $42 million. Now, the interesting thing is, that building was sold. Since IRS moved in under the lease, the building has been sold and I understand the purchase price was $13 million.

There is a world of difference between that $13 million and the projection upon which the decision was made of a $42 million construction cost. Can you shed any light on why the government's estimate would be so out of line with a privately arrived at sale price?

Mr. THACKER. Not without seeing the exact numbers that you are working with.

If the $37.5 million and the $42 million are present values, not cost of construction, then they include life-cycle cost as opposed to simply the cost of construction on the project. I believe David has a copy of the same information. The construction cost estimate was $21 million for the space.

Mr. ZOELLNER. For a new building.

Mr. THACKER. For a new federally-owned building, exclusive of designing and land costs.

Mr. BIBB. And the $42 million does include the operating cost for that building for the 30 years, including services, utilities, and cleaning costs.

Mr. ISTOOK. And you take present value—but still, if you take construction, $21.4 million; designing, $1.6 million; land, $1.6 million—you add those together, you are going to have something around $24 million which compares with that $13 million sale price.

Is there any problem in the manner in which we are making our assessments of construction cost, which are very crucial to how good our decision-making is going to be? Do you have any problems there?

Mr. THACKER. Every area deserves looking at. I am not going to question that at all. I think that the estimates of construction cost in general are fairly accurate in the sense that we go back and compare the actual cost of construction on a project with the estimate. I think, for the most part, they are pretty much in line.

The particular instance you are talking about, why a particular buyer paid a certain amount of money for a building and why a particular seller was willing to sell it for that price, is an issue that you really have to look at again, in the particular. Does that mean that the Federal Government would have been able to build that building for $13 million rather than $21 million? I think the answer to that is no. Why the seller was willing to sell and why the buyer was willing to buy at that price, I don't——

Mr. ISTOOK. I wouldn't necessarily dismiss so readily whether the Federal Government should have been able to build that building for $13 million. This is a brand new building, I believe, finished in the last quarter of 1992 and then sold in January of 1993 for this $13 million cost, and I would certainly anticipate—no, I would submit that if the Federal Government cannot build that building for something akin to that $13 million cost, we have a severe problem, and it is not something to be so easily dismissed.

Mr. THACKER. There are a lot of things that enter into a seller's decision to sell, and I don't know about this particular project, exactly what might have entered into that decision.

Mr. ISTOOK. I would appreciate it if you could explore this and submit for the record some information basically looking not only at the analysis of this in terms of the events that have taken place with the sale price but also at the original decision process. I don't know how much of that might have been at the local level or regional level. I don't know if that is a symptom of a problem in that whole area of GSA or not. But I would appreciate that submission for the record.

Mr. THACKER. It is something certainly that, again, an area that is critical to both the business decision and then later to evaluating whether we are getting a good price on the construction bid or not. So it is certainly worth looking at, absolutely.

Mr. ZOELLNER. The only thing I would add, Gerry, is the final test is when we go out on the market. The $21 million is a budget estimate of what we believe it would cost us to build a building to house the IRS. What we actually can get construction for is what

happens through the competitive process. We don't build the buildings ourselves, as I am sure you know, so it is the private sector that builds them, and that is a competitive process.

Now, everything that Gerry has said is true. We would have to know what was behind the seller's willingness to sell at that price.

Mr. ISTOOK. In part, you certainly will have different factors in each region of the country on that. Would that interrelate, for example, with prevailing wage issues on what the GSA is bound to use in construction projects in Oklahoma, for example, whereas a private contractor would not be?

Mr. THACKER. It shouldn't have had that kind of an impact, not that kind of a differential, no.

Mr. ZOELLNER. We would require——

Mr. DILUCHIO. We have the whole country indexed for those kind of factors. As a matter of fact, it is indexed to Washington, D.C. as the hundred percent point, and it goes up or down from there. As with other kinds of construction cost indices that are around, we take into consideration when we make those estimates what differing prevailing wages may be in different parts of the country, the cost of materials, availability and so forth.

We will submit a response for the record.

[The response follows:]

CONSTRUCTION COST ESTIMATE FOR INTERNAL REVENUE SERVICE IN OKLAHOMA CITY, OK

The Construction cost estimate for the Internal Revenue Service, IRS, District Headquarters that was provided to you by Harris Developments, Inc., is less than our estimated total project cost because of a number of factors. One factor is the disparity in the basis of the costs being compared. The General Services Administration's, GSA, estimate is based on a 245,849 gross square foot building, while the Harris' estimate is reduced because the IRS reduced its space requirement after the prospectus was prepared.

A second factor is that GSA designs and builds buildings for the lowest life-cycle cost over a realistic effective useful life of up to 50 years, based on consideration of longevity tempered by functional obsolescence. Private developers are influenced by tax considerations to depreciate buildings over a shorter interval. For this reason, the quality and durability of materials, construction and equipment used in commercial buildings tend to be lower than in Federal construction.

Further, aside from costs associated with substantive differences between Federal buildings and private buildings, there is a process-related marginal cost premium in Federal construction. The Federal Procurement process is governed by laws and regulations which do not apply to the private sector. The Davis-Bacon Act, the Small Business Act, and labor and wage standards, equal treatment and public accountability affect the Federal procurement process in ways which result in increased costs.

Mr. ISTOOK. Certainly.

ESTABLISHMENT OF RENTAL RATES

Let me ask another one that relates to this same region of GSA which will include Oklahoma. As a new Member, we have just been out in the market to rent space for our Oklahoma City District Office, and, in doing so—and I have not come prepared with the exact numbers, although I would like to submit them to you and get a response for the record—it appears that what we are paying for class A office space, very, very high quality space, is nevertheless about 40 percent under what we would be charged by the GSA for the best of its space there. Is that an anomaly? Do you

see that sort of spread commonly between the privately available space and what the GSA is assessing its tenants?

Mr. THACKER. No, there is not that kind of a spread nationwide. Again, in fact, the rental of space account, that is, the 45 percent of the space that is leased, pretty much breaks even or a little less than breaking even, so there is not that kind of a disparity. And I say that, because the rates are set by private commercial appraisers to reflect what the private market is paying.

The reviews are done every five years, I believe, and escalated or decreased based on operating cost pass-throughs and the Consumer Price Index for that particular community. However, the rate that you get when you go out and you say to a lessor, I am ready to lease some space for three years or five years, may be different. Shouldn't be 40 percent less, but it certainly could be different.

Mr. ISTOOK. Did I understand you correctly? Basically, your review of this process, when you are comparing your rates with the fair market value of private space or construction cost, you are basically on a five-year cycle when you make those reviews?

Mr. THACKER. The rates are set on a base line. They are reappraised, let me put it that way, every five years or when the space is first brought into the inventory. Then they are escalated or decreased based on operating cost pass-throughs, increases in the cost of operating the space or decreases in the cost of operating the space and the Consumer Price Index.

Mr. ISTOOK. Do you know when the last such appraisal would have been made either in relation to this decision in 1989 for the IRS contract or in terms of what we are looking at today in 1993 for commercial office space?

Mr. THACKER. I think the last one was done——

Mr. ZOELLNER. Last appraisal was done in 1990.

Ms. SCHILLING. Yes, 1990. For our five-year cycle that we are in now, the appraisals were done in 1990 to establish rates that the agencies would be charged beginning in fiscal year 1992. That long lead time is so that the agencies have plenty of notification to put the proper amounts in their budget requests.

Mr. ISTOOK. So all parts of the country are on the same line; it is not staggered by region?

Ms. SCHILLING. No, it is not. The entire inventory was appraised at the same time. Rates went into effect in 1992, and that base rate is good until 1997. As Gerry mentioned, we do have annual escalators that we apply.

FLEXIBILITY TO TAKE ADVANTAGE OF ECONOMIC CONDITIONS

Mr. ISTOOK. Have you experienced any difficulty in trying to match up your projections and estimates and so forth against actual economic conditions in areas that have special problems?

For example, there has been a large vacancy rate over the last number of years—hopefully, it is coming to a close—but it has been there in downtown Oklahoma City. Certainly we are one of the areas that was hit hard by some bank failures. A lot of property came on the market that was at distress sale prices and so forth. But how good do you assess GSA's ability to respond to that kind of market condition?

Mr. THACKER. If I could change the word ability to capability——

Mr. ISTOOK. Sure.

Mr. THACKER [continuing]. I would say it is very poor. We have to make GSA's business decision or make decisions about which road we are going to travel five to seven years before the decision is actually implemented. We have a planning process that finally evolves into a request for authorization to the Congress and for funding to this subcommittee.

If we had the flexibility of changing it, a direction, at the point of execution with no penalty otherwise, then I think you would get a more effective use of the Federal Buildings Fund dollars.

For example, when you actually get into a situation where you had thought the best thing five years ago would be to begin construction of a building, you may find the rental rates in the market are quite good, and you might decide you would like to defer that building construction for five years and continue to lease space for five years to take advantage of that lease market, taking into account what you might expect to see in escalation in construction costs. It is very difficult for us to do that in the sequence of events that we comply with.

So capability—I think the flexibility to change methods at the point of implementation is a real problem. I don't have any specific suggestions about that at this point, but it is something the senior staff is already looking at, and it does caution us to continue to do things that we started five years ago that perhaps, if we had the flexibility to change direction, we might do differently at the point of implementation or we might postpone or we might take advantage of a purchase instead of construction.

Mr. ISTOOK. Is there anything that might give you that flexibility other than drafting options into agreements?

Mr. THACKER. That would be one. Perhaps a more broadly worded authorization on projects about options to acquire, making the practical consequences less of not implementing a decision as we intended to. Again, I know that is very fuzzy, but I think it has to do with both the authorization process as well as the appropriations process.

Mr. ISTOOK. I can appreciate the difficulty with the lead times. I understand that you have regional determinations, your Project Review Board and so forth. When you are trying to look ahead on this, is it possible for a Member of Congress such as myself to have access to the list of what projects you are looking at that you are planning down the road in Oklahoma or within the region of GSA? At what stage is that available?

Mr. THACKER. I think in general it is certainly possible for you to see the community needs, that is, the needs of the Federal community in Oklahoma City, for example, and to see some of the alternatives for providing for housing the expansion or decrease in the city, discussing the condition of the buildings that we are in, or the terms of the leases that we are under. That kind of community plan is——

Mr. ISTOOK. I would appreciate it if that might be available.

[The information follows:]

COMMUNITY PLAN FOR OKLAHOMA CITY, OK

The General Services Administration (GSA) surveys communities in which there is a concentration of GSA controlled Federal space on a continuous, multiyear cycle, with 15 to 25 percent of the communities being surveyed every year. A primary purpose of the survey is to determine changes to existing agency space requirements. As a result of the survey, a community plan is developed which describes the long-term goals and objectives to be achieved in the subject community, the strategies to be employed in achieving the goals and objectives, and the manner in which the proposed projects implement the stated strategies. We will provide your office with a list of recent and current projects proposed for the State of Oklahoma and any recently completed community plans for those communities in the state of Oklahoma.

LONG-RANGE PLANNING

Mr. THACKER. I will ask Mr. Bibb if I might. Has one been done for Oklahoma City, David?

Mr. BIBB. I am sure one has been done.

Mr. ISTOOK. Statewide?

Mr. BIBB. There are a couple of other things that may become available. For example, we have produced a five-year plan, which, because of disagreements, frankly, between GSA and OMB in the last administration, did not clear OMB. We are hopeful that we will be able to reach agreement on the five-year plan this time around. When those become a public document we will be glad to make those available to anybody. You can track what is coming on down the line five years into the future.

Mr. THACKER. In addition, many executive agencies, departments and the Federal judiciary do their own long-range planning. And if there are major tenants in Oklahoma City, it may certainly be possible for you to see what IRS, the Department of Justice or the Federal judiciary is planning to do in that community as well.

IMPACT OF GSA PROJECTS ON ECONOMY

Mr. ISTOOK. On the infrastructure, can you give us any preview as far as—with all the infrastructure discussion with the President? Do you anticipate that some of those are going to involve any projects that will come through GSA on some of these building needs across the country?

Mr. THACKER. I would assume that buildings, because of the speed with which they put money into the economy, would be of interest to the administration, just looking at an economic stimulus package. We do maintain buildings as well as building new buildings, and getting those funds into the marketplace is on an even shorter time frame, obviously, than getting new construction dollars in.

We also are an industry that is very labor intensive for the most part, especially in alterations and maintenance of existing buildings.

Mr. ISTOOK. Have you had any direct communications with them as far as their saying which projects would GSA rate as—on a priority list that you have submitted to the administration?

Mr. THACKER. No.

Mr. ISTOOK. For possible inclusion?

Mr. THACKER. No. We have been asked for information about—in a general background way, about projects we assume that would be

considered in an economic stimulus package, but they did not include new construction projects.

WORKSPACE UTILIZATION

Mr. ISTOOK. The final thing I wanted to ask you about, I understand there is a measurement that is sometimes used to compare square footage of work space that is used, whether it be by an office worker or anybody else. Do you have figures perhaps showing the trends over the last 10 years of square feet per employee for Federal workers which could be contrasted then with square feet per worker in the private sector? Do you have those figures?

Mr. THACKER. We have figures about the square footage of space occupied by Federal workers over a period of time, which would be helpful. There is some difficulty in comparing the office space occupied by Federal workers—to the figures for the private sector. We are not always certain exactly what support spaces the private sector includes in its figures, so we are rather hesitant to compare, not being sure we are comparing apples to apples. There are numbers about the square footage of space occupied by Federal employees that are consistent and do show a decline per square foot over time.

Mr. DILUCHIO. I have some numbers here to give you in order of magnitude. Over the last seven years or so, we have had major efforts to reduce the per person utilization of space by Federal employees. The utilization rate for those employees has come down from about 159 square feet per person to a present number of about 143 square feet per person. So there has been a general decline.

Now, what Gerry also mentioned, if you use a Boston standard, a New York standard, or a Washington, D.C. standard, you are going to get different numbers because of the different ways used to measure space. But on our basis for measurement of space, there has been a general decline.

Mr. ISTOOK. Could you submit those to us for the record? Even though it may be comparing apples to oranges, as you say, if you do have any private industry numbers that could be submitted along with that, we can measure out which part is what fruit.

[The information follows:]

OFFICE SPACE UTILIZATION RATE

The office space utilization rates for fiscal years 1985 through 1992 are as follows:

Fiscal year:	*Square footage per employee*
1985	159
1986	159
1987	157
1988	149
1989	146
1990	146
1991	145
1992	143

The above utilization rates represent nationwide averages and do not necessarily reflect the three metropolitan areas mentioned above.

SPACE UTILIZATION

Mr. THACKER. The other factor, of course, that we can't identify easily for private sector numbers is the type of space that is being measured. That is, again, we have a very large inventory of government-owned inventory of buildings that are over 40 years old. Those buildings are not very efficient many times in how they can be configured. So that drives, as well, the final number. I am not sure we had seen any numbers for private sector tenants in buildings over 40 years old, for example.

So again, I think if you take that variable into consideration——

Mr. ZOELLNER. Nevertheless, I think you will find we compare very favorably. I think that our utilization is probably better than you see in corporate America.

Mr. ISTOOK. Very good. Thank you very much.

Thank you, Mr. Chairman.

DESIGN/BUILD

Mr. HOYER. Sure.

Let me follow up briefly on your design/build strategy. I wasn't sure I understood your answer on this stipend that you were talking about. As I understand, the reason design/build is argued for, is because if you separate the process of designing and building, there is not the cost conscientiousness of the individual submitting the bid on the design as there would be if they had to do both procedures, designing and then the building.

In other words, the builder may be more cost conscious in terms of the competitive nature of his or her bid than would the designer. Would you comment on that? And then try to explain to me the—I didn't understand what you were talking about, the stipend.

Mr. DILUCHIO. We really got into design/build a few years ago when the Congress authorized some 12 or 13 projects over a couple of fiscal years and provided for the financing of those projects to be placed privately.

It was with that stimulus that we went out and we asked for design/build proposals from developers which would provide for the design, construction and both the construction period and permanent financing for the project.

Subsequently, we got out of private sector financing and began using the Federal Financing Bank, where we are only paying 12 and a half basis points, plus the Treasury rate for long term bonds. We would pay much more than that for private financing.

So the design/build concept itself is just another technique of executing a construction project whereby you are dealing with one procurement, not two, not an AE and a general contractor; one responsibility. Through this process, there is a time savings in the construction period, from beginning to the end of the process, of seven to twelve months. We did not put design/build in as a preferred way of doing business, but we had not had that in our arsenal of tools of how we executed.

[CLERK'S NOTE.—The Department provided the following additional information: "We did not put design/build in as a preferred way of doing business, but now consider it on an equal basis with our traditional method for construction."]

There are some projects that are so large—I will take Foley Square, for example, where we have two 800,000 square foot buildings going up. The way we approached Foley Square was to take the initial set of proposals from design-build teams, winnow it down to the three to four that went to the final phase. Those three to four were offered a stipend on the part of the Federal Government to defray the cost of presenting their proposals to us, at the end of which we owned and could incorporate various aspects of it into the final execution.

We do not do that on every project. We have used it when appropriate in the past, for example, for the Old Post Office building here in town. Additionally, we currently have a design/build project going on in Minneapolis where there will probably be a stipend to defer the costs of preparing the proposal for those selected to go on to the final phase. So we selectively use it where there is a significant project involved.

And what we are really trying to prevent is the payment becoming a substitute for the private-sector risk of doing business. On the more complex projects, we are actually asking in the proposal to have some limited design work done on the project as part of the team's proposal presentation, and those are expensive to do, as you can imagine, so the stipend is to offset the costs of what we, the government, have asked to see in that regard for the finalists in the process.

Mr. HOYER. Simply an inducement to give you more options?

Mr. THACKER. Yes, or to induce them to participate at all because it is expensive for firms to——

Mr. DILUCHIO. Present a design competition in effect is what it does.

Mr. THACKER. We are actually better able to see at least a concept of what the design architect is proposing for the project if selected.

Mr. HOYER. Have you made any conclusions based upon projects that you have participated in as to whether or not, in fact, it is a cost savings?

Mr. DILUCHIO. I think our experience really goes back to the project we built and completed and now occupy in Chicago, the Metcalf Building. That building, rather unique, was finished a little bit ahead of schedule. I am not talking about months. I am talking probably a couple weeks ahead of schedule, which is a little bit unusual.

The change orders on that particular project were all settled before the project was completed. There were no claims on the project. And the other ingredient we had working for us is that the construction period financing was placed by the developer. Therefore, we had another agent working for us, namely, the bank or the lending institution, that created a sense of urgency for the developer to finish.

Our late penalties are rather minuscule compared to those of the bank that was financing the Chicago project. I think there was a penalty of $50,000 a day against the developer by the bank for lateness. So there was incentive on the part of that developer to finish.

We think of that project as being our anchor project or our flagship project as far as claims being low or settled before the project

end, and in terms of the project schedule being adhered to and the cost of the project being kept in tow. And, through a combination of the design/build construction technique that we used, and the financing arrangements that were made, we think they all worked to our benefit.

We thought at one time that when we used the design-build technique that there would be an additional cost to us, maybe as much as 10 percent. In the traditional process, we know what the building is going to look like. We have it designed and then bid it out. Much easier.

When we are doing design/build, there are more unknowns. So there is a risk on our part of what building we are going to wind up getting, and there is a risk on the developer's part on what we are going to demand from the developer. We know the greater that risk the more we are going to pay for the project because we are paying developer risk in that regard.

Where we have used design/build, we are not experiencing the 10 percent additional cost that we thought might be there because we have put forth some incentive-type contracting on the part of the developer to minimize not only our risk of what we are going to pay in, but the more fully described project.

So, as we sit right now with the experience we have, we think it works. Where there is some urgency of need and we can mitigate lease costs and get out of these buildings six months to a year sooner, that certainly is cheaper in the long run for us. And when those kind of things are involved, we think they are ripe for the use of design/build.

There are other cases where we are waiting for leases to expire. For example, that the urgency of need isn't there, that we can go the traditional way. We still use it in that regard. It has been successful. We haven't found that it has been costly, and we found a way of contracting to mitigate the risk on the contractor and, therefore, what we pay for that particular building.

Mr. HOYER. So as I hear what you are saying is that the cost-effectiveness deals with the timeliness of the delivery of the project and the time you save, not necessarily in the fact that the bid comes in less.

Mr. DILUCHIO. That is correct.

Mr. HOYER. Just as an accelerated process.

Mr. DILUCHIO. Or it may mitigate us going out and leasing space in the interim until the new space is ready for occupancy if there is that kind of urgency.

CONSTRUCTION VERSUS PURCHASE VERSUS LEASE SPACE

Mr. HOYER. What is the method used by GSA to determine the benefit between constructing, purchasing or leasing a required space? Rather than answering that now, if you could take this project and perhaps use it as an example of the decision-making process you have talked about and why you would conclude one is cheaper than the other, absent the scoring drive, is it cheaper to pay $80 million out-of-pocket today than it is to pay $90.1 million on $180 million plus over 10 years or 20 years?

Mr. THACKER. Would we assume in this discussion that the capital funds are there? That is, we are not trying to maximize a limited amount of funds?

Mr. HOYER. Well, yes.

Mr. THACKER. We are just looking at a business decision or——

Mr. HOYER. Business decision. We have to do that. We understand why we are driven to do the scoring decision, but I want to see the other end. What is the good business decision, scoring decision or tax decision? If you are in business are these things driving you to a bad business judgment? Maybe there's a good tax consequence but it is not a good business decision? It may be a good budget decision for this Committee to make, but is it a good business judgment for the taxpayer?

Mr. THACKER. If it is clear that the building is going to be used for the long term, I think the General Accounting Office has found that the Federal Government is better off owning a facility than leasing a facility.

Mr. HOYER. Then that would dictate the first or second option?

Mr. THACKER. Yes.

Mr. HOYER. If it dictates the first or second option, from a business judgment, we may be effectively precluded from that unless we account for that over an amortized period of time. If that is your business judgment then we may have to work on how you amortize it.

Mr. THACKER. In the best possible world, of course, the scoring of all of the options would be pretty much the same, and then the decision would be based on what is the most cost-effective decision.

RENT CAPS

Mr. HOYER. In the course of reinventing government, maybe we want to get to the best possible world. In a larger context, we may want to do that.

Let me go to some other questions quickly. Rent caps. My question is, how do rent caps affect the financial status of the Federal Buildings Fund? I think that is kind of obvious.

Mr. THACKER. The estimate is that for whatever reason, the rent caps resulted in about $5 billion in foregone revenues in current dollars into the Federal Buildings Fund.

Mr. HOYER. $110 million, I seem to recall, is the annual figure.

Mr. THACKER. That is the annual figure from just three departments.

Mr. HOYER. The rent caps of the Department of Transportation have caused you to reevaluate the service GSA provides to agencies. Do you intend to extend that reevaluation to the agencies which have limitations placed on their rent payments? I understand FDA, Department of Agriculture and Department of Transportation are the three major ones with rent caps.

First of all, you might comment on what are the actions you have taken in terms of services you provide to Transportation.

Mr. ZOELLNER. In the case of the Department of Transportation, we have issued them a letter telling them unless they can demonstrate to us that they can pay, we will no longer provide them with new space or any requests for additional space, until they can dem-

onstrate that there is money available. We are not handling any more requests for new space for them, and we would continue to do that.

If there is a rent cap proposed or incorporated into the 1994 appropriation, we would just continue. We would not be able to increase their space, assuming that their rental request to the Congress represented the expansion of space. I guess another option would be to reevaluate the level of services that was being provided to a particular agency to coincide with the funds they did have available.

Mr. HOYER. What is the discrepancy now between what DOT would owe and what they would pay?

Ms. SCHILLING. About $12 million in fiscal year 1993.

Mr. HOYER. So they underfund the fiscal 1993 rent payment by $12 million?

Ms. SCHILLING. That is correct.

Mr. HOYER. This used to be called SLUC. Bill tells me we don't use that term any more.

Mr. THACKER. That had some unfortunate connotations.

Mr. HOYER. I won't get into those.

Mr. THACKER. So in the case of the Department of Agriculture and FDA, I know in the case of Agriculture, we are, by law, prohibited from reducing their service. So, quite frankly, the Federal Buildings Fund has just been suffering the loss much more significantly than the Department of Transportation. It has grown into almost $100 million.

Ms. SCHILLING. $76 million for the Department of Agriculture.

Mr. HOYER. $76 million this year, fiscal year 1993?

Ms. SCHILLING. Just this year. So, cumulatively it is several hundred billion.

Mr. HOYER. And that is an interesting figure.

Mr. ZOELLNER. $76 million this year.

Mr. HOYER. In effect, as the 602(b) allocations have squeezed the appropriations subcommittees, they have, in effect, saved themselves money. We have discussed this before. We need to stop that, and I am going to talk to Mr. Durbin and Mr. Carr about ways in which we can look at that.

What is FDA's annual number?

Ms. SCHILLING. $19 million.

Mr. HOYER. $19 million. So we are talking about $85 million, $97 million, almost $100 million. So those three agencies made up all but about $12 million.

Ms. SCHILLING. It is $107 million total, $76 million from Agriculture, $19 million from FDA and $12 million from Transportation.

Mr. EARLY. One problem, Mr. Chairman, is, as other committees have tried to address the scoring issue, working with CBO, they have tightened up, to where, if they try to prohibit us from charging commercial equivalent or reducing services, in many cases CBO is scoring them now if they are prohibited from our charging them so that they are scored the full amount even if they don't provide the funds for it.

The problem that we are finding now is people are looking at the Department of Agriculture example, and I think the Department of Transportation is the best one, where the solution to that issue

today is to make it a single appropriation for a single purpose and, therefore, there are no funds for reprogramming. The agency then is prohibited from responding in any fashion to us by saying, hey, I can't reprogram anything else. That is all I have. That is all Congress gave in its unique standard on the appropriation.

That is what Transportation has done, and that does the job of tying everybody's hands and the scorekeepers can't grapple with that very readily either.

Mr. HOYER. Okay. We are going to discuss that more and determine how that may be going on, and make sure we don't play games with this to the extent we can preclude it.

Mr. EARLY. The real problem is certainly that one committee gets a benefit and it affects this committee. It is movement between jurisdictional lines, and that really is not fair.

PROPER ROLE FOR GSA

Mr. HOYER. The Public Buildings Service was originally established because it was then believed that having a centralized acquisition of management operations for government would be the most efficient way to conduct our business. Do you believe that centralized approach is more economical today or should each agency control its own physical facility? Which agencies currently have a high level of control over their facilities and can they do it cheaper than GSA? You may want to discuss this in the context of the fight we had on the Floor and may well have on the Floor again.

DOD, as you know, was very concerned about what it perceived to be an inflated rental charge on the basis of some space which they acquired years ago. When did we purchase the building?

Mr. ZOELLNER. Which building?

Mr. HOYER. The DOD building.

Mr. ZOELLNER. Talking about the Pentagon, right?

Mr. THACKER. I don't think so. I think it was another facility.

Mr. ZOELLNER. The Navy.

Mr. DILUCHIO. The Navy Annex.

Mr. ZOELLNER. The Navy leases.

Mr. HOYER. What they are concerned about is if you are amortizing that $79.8 million purchase price and use this as a basis for 20 years ago, you should be paying pretty low rent. What we argued to them is that if we want to replace the building we cannot be charging 1970 rent—no landowner would do that. We are going to have to face this problem again this year.

I don't want to distract from my original question. My question was, is it cheaper to do this in a centralized manner, or decentralized by department or agency. Which agencies have more control than others over their facilities?

Mr. THACKER. I don't think there is enough information to answer your question. I come from a GSA tenant that has sought for the last two years independent real property authorities as an independent branch of the government. The General Accounting Office, as an arm of the Congress, has asked for independent authorities. It already has its own building, operates its own building and is interested in, last year, and I assume would be still, in broad leasing authority for its space outside of Washington.

There are 19 or so Federal departments, agencies, quasi-governmental entities, that have very broad real property authorities in addition to the General Services Administration, everything from the Congress to the Federal Reserve to the U.S. Postal Service.

Great Britain, which had a very highly centralized design and construction and acquisition function, has over the past seven or eight years decentralized that enormously as well. Australia is following something of a similar pattern, although not as dramatic.

At some level I think the cost of space to a department or agency—to an individual program manager—is a free good under the current arrangement. There is very little flexibility except to give up space, to control the costs of space for an individual program manager.

It is an issue that I was surprised to see, the senior staff at GSA, the Public Buildings Service, already had under consideration and felt needed to be vented broadly, that is, to find out what the tenants of GSA felt the Public Buildings Service should be doing and what the Congress felt GSA, Public Buildings Service, should be doing.

You would think that, for the most part, it would be more efficient in terms of cost to manage a real property program centrally. There may be a point at which you reach a diseconomy of scale where centralization leads to bad decisions for individual programs rather than to good decisions.

Mr. HOYER. The bottom line is you don't think you have the information to really make that judgment.

Mr. ZOELLNER. Let me just add one other thing to make sure we all understand. When it comes to the day-to-day management, operation and management of buildings, for the last five years we have had an ongoing program to delegate single tenant buildings, any building where a tenant occupies more than 90 percent of the space. That program has been very successful, particularly in Washington.

The Department of Agriculture, all the major departments operate and maintain their own headquarters buildings. We have oversight responsibilities. We train them. The funding comes from the Federal Buildings Fund, so that is really not the issue on the table. The next level would be multi-tenanted buildings, mostly outside of Washington where you may have 20, 30 different agencies in a building. It is not inconceivable that you would, for example, designate the major tenant to become the lead.

What I think is really at issue here, and what agencies are looking for, is authority to go out and acquire their own space, to lease their own space, to come before Congress and to seek their own appropriation for construction.

That is really the next issue we are facing, not so much the day-to-day operation and maintenance, at least in talking to the other agencies. They are looking for the basic authorities to get better control of their own destiny in terms of acquiring space, whether it be by lease, purchase, or construction. And maybe also operate and maintain that space once they have it.

Mr. HOYER. You may want to amplify that as we go along here because we will be looking at that.

Mr. Lightfoot.

Mr. LIGHTFOOT. Thank you, Mr. Chairman.

I think we have had a real interesting and rather enlightening discussion this morning and, obviously, a very complicated issue we are dealing with. I really only have one serious question to ask.

Before I do that, I will make one comment, just in jest, that we are talking about downsizing the government and putting a handle on expenses, perhaps, but with USDA and DOT, if you folks would just evict those people, then they would have to prove their worth to get back in the building. We could maybe make some progress along that line.

Obviously, from what you are saying, you have a lot of 40-year-old buildings, and some of them in the 50- to 60-year category. Apparently 40 years ago a wealth of construction went on. Are we coming to a point in time where, replacement-wise, we are going to be hit with another big demand for a lot of buildings across the board, as opposed to being able to bring them on piecemeal as we go, since there is only so much renovation you can do?

And as we look at increases in heating costs and air-conditioning and those types of technologies that are extremely difficult to install in those old structures, are we looking at a logjam down the road here somewhere in the next say, five to ten years, that there will be some big requests for a lot of new construction? Where are we in that timeframe, or do you see that?

Mr. THACKER. You are not looking at it five or ten years down the road. You saw it two or three years ago, and it will continue for the next five to ten years, I think, yes.

Again, most of the projects you are seeing are courthouse projects in this phase of the building program. That may have more to say about the ability of Federal judges to lobby for individual projects with the Congress, and the fact, again, that the tenants of those older buildings are to a large extent the Federal courts. They are the last tenants in many of those buildings. Everyone else has been moved out. So we are already in the largest Federal office building construction program in the country's history.

Mr. LIGHTFOOT. So long as we push through this, we are over the hump then.

Mr. THACKER. There will be some point in the future where the inventory of those buildings will be replaced if there are funds to continue to build buildings. Right now those funds are quite limited, and, in fact, we are not making any headway in the ratio of space, government-owned to lease.

Mr. LIGHTFOOT. I don't want to get off into this because we ran late already, but in the old 5th district, Omaha, Nebraska is on one side of the Missouri River and Council Bluffs, Iowa, is on the other side. The only Federal space that was in Iowa was that which was required by law, such as post offices, those buildings that specifically had to be in Nebraska.

Now those buildings have aged, and there is a lot of new building going on in Western Omaha which is for the same Federal agencies. They want to move there. It is much more expensive, and, in fact, it is inconvenient to the Iowa constituency because they are going to have to drive through 15 miles of city to get to an office.

Now, when we had a study done, when I was on the Buildings and Grounds Subcommittee, there was a tremendous amount of available space available on the Iowa side of the river that met all the Government's criteria, but they more or less thumbed their nose at that and went to the new buildings on the west side of Omaha.

These are some of the kind of things that we deal with that get our constituents upset. Why they are paying more money for a Federal building, for a service that was supposed to be provided to them, and now it even becomes more inconvenient because they have to drive through a huge metropolitan area to get to it. I don't know how much community input there is in some of these decisions, but I would encourage you to have more of it.

Mr. THACKER. We do appreciate that, and I think you are touching only part of GSA's problem, and that is that Congress and the Administration expect the Public Buildings Service to play something of a regulatory role in the arena, that is, to question the need for IRS to be here or Social Security to be here instead of there. And that is a reasonable expectation, that is the part of the job that we try to do.

On the other hand, I think in the past few years, PBS has come to defer to the individual agencies and departments to justify their own decisions about the general area in which they best serve the clients for their department and agency. And they are, for the most part, making those initial decisions about wanting to be in Omaha instead of in Iowa. GSA is then trying to satisfy the space need where the agency has defined it.

So it is a problem, undoubtedly a problem, but I think in order to answer it, you need to have the departments and agencies at the table, as well when those kinds of questions—very right questions—are being asked.

Mr. LIGHTFOOT. The general perception is that the agencies have by far outlobbied the people they are supposed to work for and who pay their bills. That is the general feeling that you get from the people who are involved in the situation. But—and I realize the agency certainly should have a say-so in where they are going and what they need to do, but, at the same time, you sometimes question what that is being driven by as well.

Thank you very much.

NATIONAL SCIENCE FOUNDATION RELOCATION

Mr. HOYER. If Mr. Wolf were here he would ask me to ask you what is the status of NSF? Where are they? Are they still in the same location?

Mr. THACKER. Mr. Sherman.

Mr. SHERMAN. We are progressing nicely with them. They are working closely with us. They are cooperative and things are progressing. We expect we will have our first major move in the April time frame.

Mr. HOYER. Which means that NSF is going to Virginia?

Mr. SHERMAN. Yes.

Mr. HOYER. Mr. Olver.

Mr. OLVER. Thank you, Mr. Chairman.

Mr. HOYER. John, let me present a timeframe. We need to end at 1:30. You can stay here if you want, but I have to go. I just wanted to give you that piece of information.

Mr. OLVER. Thank you, Mr. Chairman. I apologize for coming in late. I had a discussion down Pennsylvania Avenue earlier this morning, and I regret very much because——

Mr. HOYER. We started late because I preceded you.

Mr. OLVER. This is my first chance to meet with members of the GSA, and, unfortunately, I haven't had the chance to absorb what is in this document other than the few minutes that I have been able to try to listen and follow the discussion. And I am afraid that what I am likely to ask would be a good deal duplicative of what has gone before.

Mr. THACKER. I hope we just give the same answer that we gave previously.

NEW CONSTRUCTION FUNDING

Mr. OLVER. Probably one of the major users of the GSA is the western part of Massachusetts because my district is rather diffuse, and I seem to get directed somehow through you in three different locations by three different procedures. I am not sure yet whether it is construction, acquisition or any one of the subtleties of the different lease procedures that are here. I think that my predecessor did most of that constructing. I will only get a chance to use it once in a while. I suspect that is about the way it goes.

But I have made it to the first page of your document which is the new obligational authority, and I am sort of curious. I have not been able to figure out the first page—here, for instance, for 1992 was $456 million. Is that new appropriation authority during fiscal 1992 or does that represent the actual construction during 1992? And is there anything here that——

Mr. THACKER. Let me ask Debi Shilling.

Ms. SCHILLING. That is new project starts in fiscal year 1992.

Mr. OLVER. Your estimates for 1993 would then be, if everything goes according to RFPs and so forth, would be the new project starts for 1993?

Ms. SCHILLING. Yes, the new 1993 projects included in the 1993 appropriation bill.

Mr. OLVER. So there is really a fairly heavy building program going on there, at least the new construction and acquisition at this point in time? And this does not include all these lease procedures.

I was going to ask, what is the proportion of lease procedures versus construction acquisition?

Mr. THACKER. There are a number of statistics to use perhaps, but the one I found the most interesting in looking over the material is that, in the past five years or so, of the new space brought into the GSA inventory, the ratio of leased to government-owned space to new government space was seven to one. That is, for every——

Mr. OLVER. So a combination of these leases is seven times what this half a billion dollars of construction and acquisition in this——

Mr. THACKER. You can't tie that number specifically to this year. But over the past five years, it has all been new space that came into the inventory. For every one foot that was built, government-owned, there were seven feet of leased space, new leased space coming into the inventory.

Mr. OLVER. And of those leased procedures——

Mr. THACKER. Wolf was just saying that ratio would change.

Mr. ZOELLNER. We have a lot of new construction that is just now happening in the last couple of years. And these probably will be completed over the next three years, so that ratio will probably be reduced.

LEASING ALTERNATIVES

Mr. OLVER. The three leased procedures that are listed here, what is the relative weight of those three?

Mr. DILUCHIO. On the page that you have there, the fifth number, $1.562 billion, is the amount of money that goes into the capital program in 1993. It represents new construction starts in that year, represents new starts on repair and alteration projects, represents the beginning of design on projects, and then some installment payments that we have on in so many words, on buildings that were mortgaged.

The number immediately below that, $2 billion, is the amount of money that is paid on an annual basis to lessors for the rental space.

So we have a capital program of a billion and a half in fiscal year 1993, and we are anticipating a payment to lessors for leased space of some $2 billion.

Mr. OLVER. But then—on the rental of space, I suppose the other thing we need to know is roughly what is the average time of payback expected to developers, which would give me something close to the construction value that goes with the rental dollars, the $2 billion of rental space?

Mr. THACKER. Of the methods of leasing——

Mr. OLVER. That gets us back to the seven to one. I am still curious.

Mr. THACKER. Which method do we use? The operating leases, without a doubt——

Mr. OLVER. Are by far the largest?

Mr. THACKER. Absolutely.

Mr. OLVER. Under what circumstances do you do lease/purchase?

Mr. THACKER. Lease/purchase is a process that would provide equity in a project. In the best sense, I would think, you would use that if you felt that you were unsure about whether you were going to use this space for a long term. But if you wanted to acquire some equity in the project so that if at a point you decided, yes, we are going to be here for 15 or 20 years, we are better off owning the property than continuing to pay the rent, so lease/purchase would have some sort of ownership at the end of the term available to the government.

Mr. OLVER. So it would represent——

Mr. HOYER. May I interrupt you?

This is one of the reasons for having this hearing. You will note that the scoring on budget authority under the operating lease, which we have just been told is the way an overwhelming majority of buildings are acquired, scores at $9.1 million per year. If, on the other hand, you go into a lease/purchase, it is $97.3 million dollars in the year that you enter into the lease/purchase, although you amortize that at $9.5 million per year for 20 years.

Now, this affects the subcommittee in the area of scoring. When you and I sit down to mark up the bill, we will have X millions of dollars available to us. We have X number of dollars available and we have Y number of needs out there.

How do we do it? If you score the building at only $9.1 million, there is a great incentive to go to an operating lease, even though it may be more valuable to the government to purchase it. The lease/purchase agreement, however, is scored at almost $100 million that year, ten to one ratio.

So one of the reasons for this hearing is to try to talk about that. The reason we have not always done the best thing that is based on budget purposes, not business purposes, not for taxpayer value purposes.

GSA REGIONAL OFFICE STRUCTURE

Mr. OLVER. Is there an inventory of GSA properties? For instance, I don't see regions. How many regions are there? At least nine?

Mr. THACKER. There are actually ten now, including the National Capital Region.

Mr. OLVER. And is there——

Mr. THACKER. Every Federal region except Boston has a regional office. There is no GSA regional office in Boston. There is in each of the other Federal regional cities in the country.

Mr. OLVER. Who serves the Boston regional office?

Mr. THACKER. New York.

Mr. OLVER. So that region, I take it is—just New England is served out of New York?

Mr. THACKER. Yes.

Mr. ZOELLNER. There is a GSA office resident in Boston in the McCormick Building. It is just not called the regional office. It reports back to New York.

Mr. OLVER. Is there somewhere, not here I take it, something defining what the regions are and what the breakdown is region by region of these?

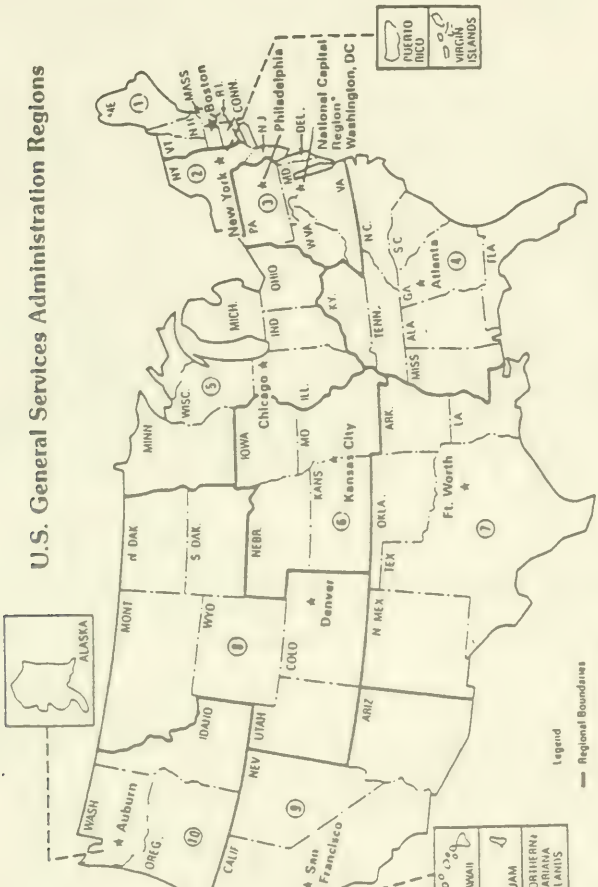
Mr. ZOELLNER. No, not in the budget.

Mr. OLVER. Construction and rental obligations?

Mr. THACKER. Not in the budget. We can certainly provide that information because it is all generated that way.

[The information follows:]

REGIONAL OFFICES MAP



Mr. OLVER. Is there someplace—a map on the wall—where somebody like myself, if I wanted to, could see all of the different properties that are GSA? I am sort of curious here whether, if you look—if you take a 10-year view.

Mr. BIBB. We will certainly provide you a regional map.

CAPITAL PROJECTS PLANNING PROCESS

Mr. OLVER. I am just interested in the process here as to whether or not, thinking in a 10-year term, you see that in fiscal year 1993 certain things are happening. In fiscal year 1994, others are likely to be happening. And whether there is a deliberate effort on your part to bring agencies together in a regional way, rationalize where the service administrations are.

I get the impression up my way that there is a little piece here and another piece there and another piece here, there and the other place that has built up over time. You can't see it in the present capital projects that are in operation at the moment, but taken over a long period of time, what is owned and what may then require repairs, as Mr. Lightfoot has suggested here, that there is perhaps a good deal of rationalization. Or can't you ever knock heads together to get that kind of thing to happen?

Mr. THACKER. I will ask David Bibb to answer parts of those questions for you.

Mr. BIBB. There is certainly a well-established planning process to deal with our own inventory. We are constantly looking at our own buildings through our own engineering efforts and contract studies to look at what kind of systems need to be replaced. We prepare community plans on an ongoing basis throughout the country.

I have a counterpart planning staff in each regional office that constantly goes out and looks at what the space needs are in each community and comes up with a long-range plan for how to deal with those needs in that community.

Now, if you get beyond that and try to determine how much of a presence in the northeast IRS should have, for example, we believe that is far beyond the scope of what GSA can do. That becomes more of an OMB matter. I don't know if you are going along those lines or not.

But, as for planning, what to do with our inventory, we do have an established planning process for community plans and engineering studies of our existing buildings.

Mr. OLVER. I guess in part I am wondering, there are some large special uses which might locate maybe anywhere. There are a number of other agencies which just have units in a lot of different places where one could consolidate them in some central locations that would be good for service. I am trying to get a sense of whether you attempt to get agencies to come together to provide some balance.

Mr. BIBB. Within the community we would do that. We would not go in and tell an agency to move from Nashville, Tennessee, to Boston.

Mr. THACKER. Or even to tell the Social Security Administration that it has too many district offices or not enough district offices.

Those decisions are made by the people who are responsible for carrying out the program.

Mr. OLVER. I am more interested in maybe whether Veterans Administration and IRS and six other agencies that may be brought together with dollar efficiency for the Federal Government on a basis that you see something happen in fiscal years 1992, 1993, and 1994, and you plan it in such a way that they do come together, rather than what I think I see in some instances of agencies that have no specific reason to be spread all over the place are.

Mr. THACKER. That is done both with new construction projects and with leased consolidations. In some instances, though, when individual leases are looked at, if the people are in leased space, it may not be advantageous to bring them altogether into one larger lease—or it might. But it is something that David's counterparts in the regions do look at, yes.

Mr. BIBB. We do look at that, and we do have a number of projects doing just that.

Mr. THACKER. That is also a good argument to the question you were asking. That is one of the advantages GSA brings to a more centralized management of the real estate program. It might be harder to effect that kind of a consolidation if each of the departments and agencies have unlimited authority to make their own decisions and carry them out in terms of space.

DAVIS-BACON ACT

Mr. OLVER. Are all of the construction projects subject to Davis-Bacon?

Mr. THACKER. Yes. All of the federally funded construction projects must use prevailing wage rates.

Mr. OLVER. At whatever number of dollars they are subject to Davis-Bacon?

Mr. THACKER. $2500 is the Davis-Bacon threshold.

Mr. OLVER. What is the threshold criterion if it is different for the lease arrangements? Are they all——

Mr. THACKER. The leased?

Mr. DILUCHIO. It is not applicable to leases.

Mr. OLVER. Not applicable in any of the lease arrangements?

Mr. THACKER. It only applies to federally funded projects.

Mr. OLVER. So Davis-Bacon does not apply, then, to any of the lease arrangements?

Mr. THACKER. No.

Mr. OLVER. At no level?

Mr. THACKER. No. Because, as you can see, it would be very hard to do. If we are going out and leasing space that was built 10 years ago, we are leasing part of a building, how would you——

Mr. OLVER. How does that affect—what proportion of the lease arrangements then are done by, say, union contractors?

Mr. THACKER. Oh, I have no idea. We would have almost no way of knowing, because most of the leased space was not built especially for the Federal Government. It is general purpose office space, and we may be——

Mr. ZOELLNER. A partial tenant.

Mr. THACKER [continuing]. Partial tenants in a privately owned building, so there is no way of knowing. I mean, we don't know when the building was built and——

Mr. OLVER. I won't pursue this, but there would be those where the lease space would be part of a larger construction, but there would also be where the lease arrangement would be a lease arrangement for the sole purpose——

Mr. THACKER. Yes.

Mr. OLVER [continuing]. With a Federal agency. I assume you would—it would be possible to figure that out in those cases?

Mr. THACKER. Yes.

Mr. OLVER. But not in the broader cases?

Mr. THACKER. My understanding is the Davis-Bacon Act does not apply to that kind of a construction. That is a build-to-suit lease. Only where the project is funded and managed by the Federal Government.

Mr. EARLY. What we are finding in these construction solutions, in many cases we are asking the local market to give us a solution, whether it is an existing building or a lease construction building, any may provide a solution. So we look at that as the best value for solution. Since Davis-Bacon does not apply, that puts them more on an equal footing as to whether it is already a constructed building or one to be constructed.

CONSTRUCTION VERSUS LEASE/PURCHASE

Mr. OLVER. Is the procedure as far as a GSA acquisition construction for going right through to the construction stage identical for the acquisition construction and, say, a lease/purchase or an operating lease?

Mr. THACKER. No. One is usually based on a design developed by an architect or an engineer hired by the Federal Government and then constructed under a contract to the Federal Government. That is the traditional—down here—construction acquisition.

A lease construction project is, for the most part developed by a lessor to a narrative specification rather than to a design developed by the Federal Government. We are experimenting with some variations on that, but, essentially, it is meeting a performance requirement rather than a design developed by the Federal Government.

Mr. OLVER. Well, Mr. Chairman, I am not going to pursue this at the moment. I need to do some more reading here, I think.

OPPORTUNITY PURCHASE

Mr. HOYER. We may have another hearing in addition to the budget hearing on these issues because I think they drive a lot of the budget decisions.

I didn't get a chance to get into it, and we are not going to get into it now, but I would very much like your views on the question of opportunity purchases.

Mr. Istook was getting at this question. For example, it may cost $21 million to construct a building, but if the landowner is going bankrupt, he may sell it to you for $13 million because he just can't carry it any more and wants to cut his losses. I understand that there is not a whole lot of money available in the opportunity

purchase fund, if there is such a fund, but doesn't it make sense to buy this existing building. Is there a separate fund for that?

Mr. THACKER. Certainly not as much as could be used in this present market.

Mr. HOYER. For instance, did you hear about the story about a lot of office space available in Philadelphia?

Mr. THACKER. Maybe not the best example. We would disagree with some of the news stories we have seen. But certainly there are markets that have good opportunities, absolutely.

Mr. HOYER. I am going to submit a number of questions to you, and I apologize for that because it takes a lot of your time to answer them. However, we don't have time to go through them all. I would like you to respond particularly to this question, because clearly our constituents know there is a whole lot of space out there begging to be purchased at real losses to the owner.

Mr. THACKER. GSA had a very successful program about three years ago, I guess, that built up over a three-year period, and I suppose about $300 million, as I remember, in buildings were purchased during that time. I think there was a General Accounting Office study again done of that program that was generally very favorable of those purchases. Yes.

Mr. HOYER. I would like to hear about the opportunity purchase program. If you started three years ago, that was the time, particularly in this region, when markets were high.

Mr. EARLY. As an example, in New York, the market was still strong when the funds were depleted. No real values there. Now there are.

Mr. HOYER. Look at that, and I would like you to answer the question in the context that we may have some real opportunities. Again, if we are reinventing government and acting smarter, we may not have the capital available, but we ought to have the information that it may be more profitable to spend $500 million today than tomorrow because tomorrow it will be $750 million or the next day a billion dollars. Seems to me the public knows there are a lot of those opportunities out there.

Mr. THACKER. Yes.

[Additional questions submitted for the record by the Committee and the answers thereto follow:]

ALTERNATIVES TO FINANCING THE ACQUISITION OF FEDERAL OFFICE SPACE

Question. Would you please review for the Committee the various alternatives available to GSA to finance acquisition of Federal facilities?

Answer. There are five ways in which GSA can acquire a real property interest. Three methods (Construction/Acquisition, Federally, or privately financed lease-purchase) result in government ownership while the remaining two (capital and operating leases) represent the acquisition of a leasehold interest which terminates at the conclusion of the lease payments.

Question. Please provide a brief summary of the advantages and disadvantages of each approach and the scoring implications of each approach.

Answer. Basically, GSA can acquire space by leasing space from the commercial sector, by entering into lease purchase agreements, and by direct Federal construction. The budget scoring rules that became effective in FY 1991 materially changed the perspective that GSA had on these alternatives.

For leasing, the new budget scoring rules affected leasing transactions beginning in FY 1992. In FY 1992 all capital leases require the scoring of budget authority upfront in the amount of the net present value of the triple net rent over the term of the lease. Outlays are scored over the term of the lease, just like operating leases.

Historically, when resources were not available for new construction for large space requirements and/or special long-term needs, GSA would enter lease space to fulfill our clients' requirements. Many of these types of leases are now classified as capital leases, and often cannot be modified to meet the criteria for operating leases.

Prior to FY 1991, lease purchases offered GSA an opportunity to acquire space without encumbering significant amounts of upfront resources. The upfront scoring of lease purchases makes the acquisition of new space using this financing method impractical from the standpoint of budgetary resources. Under the scoring rules which went into effect in FY 1991, for Federally financed projects, both outlays and budget authority for lease purchase projects must be scored upfront. For privately financed lease purchases the budget authority is scored upfront while the outlays are scored in an amount equal to the annual payments when the payments are made. In addition, the budget authority required includes construction period interest, which results in a larger resource requirement than direct Federal construction.

With the advent of the budget scoring rules in FY 1991, capital leasing and lease purchase must be scored upfront.

Question. Would you please provide, especially for the new members, a short explanation of the Federal Buildings Fund—how revenue is generated by charging RENT to Federal agencies and how this method creates funds for future acquisitions?

Answer. The Federal Buildings Fund, a revolving fund, and the Public Buildings Service's (PBS) RENT system, were established by law in 1972. Prior to that time, PBS' programs were primarily funded through direct appropriations. Both the Administration and the Congress wanted Federal agencies' budgets to reflect their actual program costs, including the cost of their facilities. In addition, they wanted to provide incentives to Federal agencies to become more restrained in their requests for space by making agencies bear their own housing costs. Under the 1972 law, all Federal occupants in PBS' facilities pay a rental charge for the space and related services they receive from us. By law, the rental rates charged Federal agencies reflect commercial rates as determined by private sector, professional real estate appraisals, and they are established for every building under our control.

Agencies' rental payments are collected by PBS and deposited in the Federal Buildings Fund. PBS then budgets for the cost of leasing, operating, repairing and altering the space inventory from those rental revenues. Any remaining revenues are available for our Capital Program—modernizing existing buildings and constructing and purchasing new buildings. PBS receives authority for expenditures from the Federal Buildings Fund in the annual Appropriations Act which originates in this subcommittee.

Question. What is the financial impact on the Federal Buildings Fund when the percentage of leased to owned space increases?

Answer. Most of the RENT collected from client agencies occupying leased space is used to pay the contract rent to the lessor, while in a Federally owned facility the spread between the RENT collected from the client agency and the actual operating costs is greater; therefore, providing funds for other FBF projects, e.g., repair and alteration projects and construction of federal buildings.

Question. What is the method used by GSA to determine the benefit between constructing, purchasing, or leasing the required space?

Answer. When GSA needs to determine the benefit among constructing, purchasing, or leasing space, it performs a life-cycle present value analysis consistent with OMB Circular No A-94. This circular, entitled "Guidelines and Discount Rates for Benefit Cost Analysis for Federal Programs" prescribes a methodology for economic analysis to calculate the present value costs of housing employees in leased space or owned space for a 30-year period. For each year, dollar costs are escalated and then discounted back to the base year to estimate the present value cost. The sum of all 30 present value calculations is the total present value cost of undertaking a particular alternative. The alternatives are compared and, in general, the least costly alternative is the capital project GSA wishes to undertake as a prospectus level project.

PROPER ROLE FOR GSA

Question. According to GAO, the GSA is preoccupied with its role as a deliverer of services and has not developed a long-term strategy management of the Government's property. Is that how GSA sees itself—a supplier of services, not a manager of Government assets and a developer of Governmentwide policy?

Answer. GSA is comfortable with the dual roles of service deliverer and asset manager. We do not view these roles as mutually exclusive but as complementary

because only through prudent management of the assets within our control can GSA deliver quality space and services to our client agencies.

As concerns long-term strategy, our 5-year Capital Improvement Plan is specifically designed to achieve three objectives, including increasing Government ownership where cost-effective, modernizing our space inventory, and managing our properties as assets. In addition, two of the six Strategic Objectives in our 1993 Strategic Plan are devoted to asset management. The 5-year plan has not been approved by the Office of Management and Budget for release to the Congress.

Question. When agencies approach GSA to discuss a need for additional space, do you evaluate the requests or are they simply added to the list to become part of the unmet construction requirements? Within the past 5 years, have you denied an agency's request?

Answer. In the evaluation of agency's requirements, the agency is expected to demonstrate the mission need to support its expansion request. It is GSA policy to work with its client agency to make sure that the space requested is necessary to satisfy operational needs, or if the amount of expansion space can be reduced to an appropriate level. GSA may conduct utilization surveys of space currently assigned to an agency, if it appears that it is not being efficiently utilized. GSA will make recommendations to the occupant agency if there are areas where space can be reconfigured or released for reassignment. While almost all space requests are amended to some extent, it is rare to totally deny an agency's request.

FIVE YEAR CAPITAL IMPROVEMENT PLAN

Question. Last year you stated that your 1993–1997 Capital Improvement Plan would require over $6 million in additional appropriations. Have you updated this plan and if so, what would be the required funding for this plan?

Answer. The projects included in the draft 1994–1998 Capital Improvement Plan will require appropriations to the Federal Buildings Fund totalling $7.5 billion.

Question. Have the projects on this list been thoroughly reviewed to ensure that acquisitions are in line with GSA's role in providing general Government space and not necessarily single-agency specific space? For example, does this plan include laboratory or special purpose space for things other than courthouses?

Answer. The projects included in the 5-year Capital Improvement Plan for fiscal years 1994–1998 address the most urgent space needs of GSA's client agencies. The vast majority, 95 percent, of the 28 million occupiable square feet, otherwise known as o.s.f., of new construction is devoted to the United States Courts and general purpose office space. Four special purpose space projects, accounting for only 1.7 percent of the total new space, are included.

In addition to these projects, several border station facilities are included in the 5-year Plan. These facilities are, with few exceptions, very small and account for only 3.1 percent of total new construction space.

JUDICIARY'S SPACE REQUIREMENTS

Question. It appears that space requirements for the Judicial Branch are straining the Federal Buildings Fund resources. The 1993 request included $136.6 million of Courthouse projects which represented 83 percent of the requested funding, adjusted for the 4 large office projects in Washington. Furthermore, it appears that Courthouse requirements will just continue to grow. How has this affected GSA's ability to provide space to other Federal agencies?

Answer. The combined facilities needs of the courts and other Federal agencies exceed the resources of the Federal Building Fund. GSA will prioritize the facilities needs of all agencies and will recommend those projects that are of the highest priority.

Question. There has been concern raised about the Judicial Branch's desire to withdraw from participation in the Federal Buildings Fund and conduct its own capital acquisition and improvement program. What is your option on this matter?

Answer. The General Services Administration's (GSA) Federal Buildings Fund does not have enough revenues to finance all of the current space demands of the courts and executive branch agencies. GSA estimates that the cost of funding all currently projected court requirements is in the range of $9 billion.

In the past, the courts have been interested in obtaining their own legislative authority to build and run their own facilities. Legislation was introduced in the 102nd Congress, and Senate hearings were held. No action was taken, and the legislation died when the Congress ended.

GSA has opposed this legislation for a number of reasons. The legislation as proposed would duplicate GSA's real property services, weaken government's manage-

ment of real estate assets, subordinate the needs of all other Federal tenants in GSA space to the needs of the courts', exempt the courts from paying Rent to GSA for the space they occupy, and lead to instances where GSA and the courts would compete against each other for space, driving up the cost for taxpayers.

GSA will review and evaluate any new legislation introduced on behalf of the courts to assess its effect on GSA's ability to carry out its mission of providing quality, cost-effective services to its clients and sound management of real property assets.

Question. In last year's hearing, GSA testified that if full funding of the $6 billion 5-Year Plan could not be met through additional appropriations, a possible scenario was fund new construction of courthouse space only and lease space for other Federal agencies. Since it appears that full funding of a $6 billion plan will be unlikely, is this scenario still a possibility?

Answer. In the 1993–1997 Draft 5-Year Plan, GSA proposed several alternatives because of the anticipated scarcity of resources within the Federal Buildings Fund to meet the requirements of the 5-Year Plan. We will provide for the record a list of alternatives including advantages and disadvantages.

[This list follows:]

Perform the total 5-Year Minor Alteration Program;

Perform the total 5-Year Major Alteration Program for only courts projects; and

Perform the total 5-Year New Construction Program for only courts projects.

Some advantages and disadvantages GSA associated with this alternative were:

Advantages:

Given the current extensive court requirements and project future needs, this alternative would do much to alleviate the pressing needs of the courts; and

Program accomplishment appears realistic; however, funding shortfalls projected for 1994 and 1995 will have to be managed through a priority ranking process.

Disadvantages:

By restricting the capital program to improving only the courts, GSA would be neglecting its other clients; and

By restricting projects to only courts, much needed modernization projects in its aging inventory would have to be deferred until resources were available.

This is not the alternative scenario GSA recommended in its 5-Year Plan.

GSA recommended:

Perform the total 5-Year Minor Alteration Program;

Perform the total 5-Year Major Alteration Program for all agencies; and

Use any remaining funds for a limited New Construction program.

Courthouse Facilities

Question. Has GSA reviewed current Courthouse facilities to develop an evaluation on the percentage of time that a courtroom is in use and if this represents a reasonable use rate?

Answer. No, however, GSA has raised this issue with the Administrative Office of the U.S. Courts on a number of occasions over the last 20 years. The U.S. Courts have remained steadfast in their determination to provide courtrooms for every Federal District Court Judge, senior Federal District Court Judge, Magistrate Judge and Bankruptcy Judge. The U.S. Courts' position remains that judges must have the flexibility to schedule trials without having to compete with judicial colleagues for an available courtroom.

Construction versus purchasing existing property

Question. Given the recent recession and still depressed real estate market, would it be cheaper for GSA to purchase existing buildings instead of constructing new buildings?

Answer. Yes, there are instances where market conditions, availability of suitable buildings, and Federal space needs combine to create situations where purchase would be cheaper than construction. To take advantage of these situations, GSA, in 1983, initiated a Building Purchase Program. Thirteen commercial buildings have been purchased to date. The program allows GSA to react quickly when suitable buildings become available at favorable prices in areas where GSA has a long-term need for space. To be considered for purchase, economics analysis must show that the life-cycle cost of purchase would be less than or equal to other alternatives. GSA continues to receive attractive sales offers from across the nation, but have not purchased any since 1988; we lack the funding to do so.

Question. Wouldn't the purchase of such buildings be equally effective in increasing Federal ownership of space and reducing the reliance on costly leased office space?

Answer. Yes. The General Accounting Office's 1989 report on the Building Purchase Program found it to be an effective and economical means of acquiring modern Government-owned space and reducing leasing costs. In addition, the purchase of an existing building can in some cases be more cost effective than construction because a purchase building is available for occupancy much sooner, construction often takes 4–6 years, resulting in savings in lease payments. In addition, design standards for Federally-constructed buildings and mandated requirements such as the Davis-Bacon Act and other laws often are not required for privately-constructed buildings, thus the cost of private construction can be less than what it would cost GSA to construct an equivalent building.

Also, by purchasing buildings, GSA avoids cost overruns that often occur in multi-year construction contracts due to change orders, changes in agency needs, and contractor claims.

Question. Has GSA done any recent cost/benefit studies comparing large Federal centers which consolidate many agencies, with the alternative of some degree of decentralization and choice for tenant agencies?

Answer. Although GSA has not completed any generic studies, consolidation studies have been completed periodically by both GSA and our client agencies on a project-by-project basis. A fundamental step in GSA's long-range planning process is the development of long-range community objectives, and the costs and benefits of consolidation are one of several factors which are considered in their development.

REDUCING COSTS OF LEASED SPACE

Question. GSA spends almost $2 million each year to lease office space for Federal agencies, and these costs seem to continue to escalate. What is the estimate for the cost of leasing office space in 1993?

Answer. The estimated cost of leasing space in FY 1993 is $2.004 billion for all types of space. We are not able to break out the office space from the total of this estimate because the lease contracts reflect a summary rental rate for all types of space.

Question. Many Federal agencies are frustrated and dissatisfied with your leasing process and the time it takes you to deliver space. What is GSA doing to reduce the cost of its leased space?

Answer. GSA is committed to provide quality space to meet the needs of its client agencies. Our quality Solicitation for Offers provides for space that satisfies not only the operational needs of the client agency but also complies with Federal Regulations covering handicapped accessibility, indoor air quality, health and safety requirements, etc. In addition, Federal Property Management Regulation, also known as FPMR, Temporary Regulation D–76, which was published in the Federal Register on August 26, 1991, contains utilization rate thresholds for office space. These thresholds are used by GSA as benchmarks to determine how efficiently new agency space assignments are being utilized. Also, when acquiring new or replacement lease space, GSA performs market surveys to determine the availability of suitable space within the delineated boundaries specified by an agency. GSA then negotiates with each competing offeror of suitable quality space in order to obtain rental rates that are at or below the rates prevailing in the local market. These local market conditions are also verified by an appraisal report. Through the efficient use of space and competitive negotiations with lessors, GSA limits the cost of new or replacement lease space.

Question. What is GSA doing to make its leasing process more responsible to customer agencies' needs and to reduce the amount of time it takes to deliver space?

Answer. FPMR, Temporary Regulation D–76, introduced the concept of joint GSA/agency development of space requirements to ensure that all agency space and related needs are identified and fully defined before the acquisition process begins. The joint development process limits the potential for delays caused by amendments to agency space requirements. In addition, GSA and the agency jointly develop delivery schedules for each space requirement. The schedule for each pending space requirement is furnished to the appropriate agency officials on a regular basis to help them track GSA's progress on each space action. Approximately 18 months ago, GSA developed an expedited process with streamlined procedures for acquiring blocks of space of 10,000 square feet or less. Since the expedited process has been in effect, over 1 million square feet has been acquired, using the new streamlined procedures. Space requests processed under these procedures have been leased in an

average of 57 days. In addition, we have begun experimenting with an Advanced Acquisition Program in our National Capital Region. This program provides blocks of typical office space, under 10,000 square feet, with standard buildout features, for a wide range of agencies in the shortest possible timeframes. Further we have drafted legislation to permit GSA to utilize simplified procedures to rapidly acquire small leases under 10,000 square feet, to allow for the use of streamlined procedures when acquiring leasehold interests for continued occupancy, and to provide faster leasing procedures for leases under disaster and emergency conditions.

Question. What is the projected cost of leased space in fiscal year 1993? Do you anticipate that the lease costs will level out or decrease?

Answer. The projected cost of leased space in fiscal year 1993 is $2.004 billion. The cost of leased space is projected to increase. The extent of the increase will vary with the market cost of space, and the square footage required by our customer agencies. In fiscal year 1992, the leased inventory increased by 8.8 million occupiable space feet, which was driven entirely by agency demand. The rate of increase in the cost per square foot of leased space has slowed. However, most of the major markets where GSA is acquiring new space have not experienced reduction in rates. Therefore, while the growth in cost per square foot is expected to moderate, the square footage leased will depend on agency demand.

PURCHASE OF RTC AND FDIC PROPERTIES

Question. Has GSA purchased any Resolution Trust Corporation (RTC) or Federal Depot Insurance Corporation (FDIC) commercial properties or made efforts to identify and consider such properties?

Answer. GSA has not purchased any RTC or FDIC commercial properties. We have, however, responded to four inquiries by local RTC officials or their brokers and contractors. Since 1991 GSA has unsuccessfully attempted to develop special procedures for doing business with RTC. In the absence of such procedures, our four proposals on the RTC properties were processed using RTC's normal procurement process in which GSA was not provided any special preference. GSA periodically reviews RTC property listings and will continue to give full consideration to RTC properties as a means of satisfying agency space needs.

At this time discussions have not been initiated between GSA and FDIC concerning FDIC commercial properties.

Question. Does GSA consider the economic benefits and budgetary implications of purchasing such properties in making decisions to lease or construct new space or repair and modernize existing space?

Answer. Yes, in those instances where the RTC or FDIC has a suitable property in a location where GSA has a long-term need for space, GSA evaluates that property along with other alternatives. GSA does not compute an implicit cost savings to the Government as a whole, nor does the RTC and FDIC offer any preferences to, or distinguish GSA, from other buyers. In 1992, GSA submitted a sealed bid to acquire the First Federal Bank Building in Toledo, Ohio, from the RTC, but was not the successful bidder. If the acquisition was successful, the existing Federal Building would have been disposed of rather than proposed for modernization. An RTC-held building in suburban Virginia was also considered for acquisition in 1992, but the economics of the acquisition were not extremely favorable, and the proposed tenant's long-term need for space came into question due to the downsizing of the Department of Defense.

METHODS USED TO DEVELOP AND CONSTRUCT PROJECTS

Question. Considering the large non-reimbursable investment which private firms must make to prepare a Design-Build proposal, is GSA considering limiting what is necessary for a proposal or developing a short list of private sector firms from whom you accept bids?

Answer. Yes. Procurement criteria/practices are being reviewed to limit design proposal requirements in the early stages of the selection process. As supported by the industry, GSA recommends a two-phase source selection approach with the first phase serving to narrow the field of prospective offerors for the second phase's final evaluation/selection. Our first example of this approach is the court-house facility in Minneapolis, Minnesota.

Question. Another method used to manage the design and construction of facilities, is called "Partnering". This brings together the principles from the various groups involved with the project to discuss issues and problems. I understand that this approach is being used at the Archives project. What is your experience with this approach?

Answer. The Partnering concept has had a positive and dynamic impact on the industry. GSA recognizes its benefits and has encouraged its regions to utilize the concept. The Partnering process encourages a change by client and contractor from their traditional adversarial relationships to a cooperative, team-based approach toward disputes avoidance rather than a later costly address of dispute resolution. GSA has successfully employed the Partnering concept during both the design and construction phases with very positive results. It has been successfully employed on alteration projects, border station construction, courthouse construction, and court house design. We are enthused with the response to date and have encouraged a continued use through our regions.

Question. Another issue raised by the private sector has been the concern that Government specifications are out-of-date and should be updated. What is your process for updating specifications and can we expect an update this year?

Answer. In the mid 1980's GSA adopted the American Institute of Architect's, also known as AIA, MASTERSPEC system, a private sector based system, as our guide specification system. These specifications are updated by the AIA on a four year cycle.

CONSTRUCTION/ACQUISITION VERSUS LEASING

Question. We have heard for a number of years that Federally-owned space, whether constructed by the Government or purchased from the private sector, is the most cost-effective method of obtaining space. Is it necessary in all cases, that the Government own a building? When is it more cost-effective for the Government to lease?

Answer. No, it is not necessary that the Government own a building in all cases. There are a number of situations that would lead GSA to propose a leasing solution rather than a Government-owned solution. GSA compares housing alternatives that would satisfy a space need on a case-by-case basis. One of the bases for comparison is the cost-effectiveness of each solution. If the local real estate market can offer leased space that meets client agency needs and is shown to be more cost-effective through economic analysis, then GSA proposes the leasing alternative. In addition to cost-effectiveness, GSA may propose the leasing alternative for other reasons, such as the immediacy of the need, permanency of the requirement, and inventory flexibility.

Question. The President has announced that through various actions, the Federal workforce will decrease by 100,000 over the next 4 years. This action, as well as hiring freezes which have been in effect for a couple of years, should cause agency space requirements to change. Would it not be more cost-effective to increase the amount of leased space which can more easily be adjusted to decreased need than to construct a building designed to house a larger workforce?

Answer. The flexibility inherent in GSA's planning process allows the consideration of changing needs. The number of employees to be housed is one of the prime considerations that goes into the development of agency space requirements. Any changes in employment levels should translate to a reduction in an agency's requirement, and a corresponding evaluation of GSA's inventory. Because it is unclear as to where, when, and how much each Federal community will be affected by workforce changes, it would be premature to make immediate changes in GSA's inventory management strategy. As the employment picture becomes clearer, GSA will incorporate this information into its planning decisions.

Even with the employment levels envisioned, it may not be appropriate to change our national inventory management strategy. Our preferred mix of owned to leased space includes a certain amount of leased space that allows flexibility to respond to changing agency needs. At this time, our inventory includes more leased space than our target mix. Therefore, we feel that our leased inventory is large enough to allow flexibility. If Government-owned space is vacated, we would backfill from our existing leased inventory.

Question. Have you collected data to validate your claim of least-cost to the taxpayer through ownership?

Answer. At various times, GSA has provided data to support the benefits of ownership. GSA has completed economic analyses on specific projects and on a national inventory basis that have shown the benefits of ownership. In addition, the General Accounting Office, GAO, looked at the ownership issue. The GAO study, issued in December 1989, determined that the Federal Government could "save billions of dollars by owning space it would otherwise lease." Specifically, GAO analyzed 43 projects GSA could construct if sufficient capital funding were available.

DISPOSAL OF UNUSED FEDERAL BUILDINGS

Question. When the Government owns buildings, the responsibility for disposing of unused or unneeded Federal buildings also falls on the Government. How does GSA identify unneeded buildings and then how does GSA dispose of these buildings?

Answer. Acting as a part of GSA, PBS does identify unneeded properties under GSA control but does not actually dispose of Federal buildings. Rather, we report the properties as "excess to our needs" to GSA's Federal Property Resources Service, also known as FPRS, using a Standard Form 118, Report of Excess. In this respect, we are not different from other Federal agencies holding real property. The FPRS carries out the actual disposal of properties that have been identified as excess.

Acting as the property manager for GSA, PBS actually screens the over 1,700 properties in our inventory under two separate procedures. The first procedure is internal to PBS and is part of our community planning process. This process is performed by PBS planning personnel who develop new plans or update old plans to identify actions in the communities that should be accomplished in order to satisfy client agency requirements and meet PBS management objectives. These plans are done on a rotational basis among the communities and include a review of all of the Federal properties in our inventory in that community. This ensures that all of our properties are reviewed periodically.

The second procedure is Government-wide and was established under Executive Order 12512. It requires all Federal agencies to make an annual review of their properties for utilization and to report any that are "unutilized, underutilized, or not optimally utilized".

PBS can also identify a property as a candidate for excessing independently of the survey procedures. Regardless of how the property is identified as a candidate for excessing, PBS then performs a Retention/Disposal Study on that property. If the Study recommends disposal, PBS then reports the property as excess to the FPRS using the Standard Form 118 process.

Question. How successful has GSA been in adjusting its buildings inventory to the changes in agency needs and then disposing of this property?

Answer. As a part of GSA, the Public Buildings Service has traditionally led other civilian agencies in the value of property reported excess. In the last two fiscal years, PBS has not been able to report as much property as excess as in previous years precisely because of the major increase in agency space needs, particularly those of Treasury, Courts, and Justice. Those properties that have been declared excess were in smaller communities where the sizes and values of the Federal buildings are less and the needs of the agencies have declined.

ADHERENCE TO NATIONAL BUILDING CODES

Question. Is there a legal requirement for GSA to abide by national building codes? If so, what is the statute that addresses this requirement?

Answer. Section 21 of the Public Buildings Amendments of 1988, Public Law 100-678, 102 Stat. 4049-4054 requires that "each building constructed or altered by GSA or any other Federal agency shall be constructed or altered, to the maximum extent feasible as determined by the Administrator or head of such Federal agency, in compliance with one of the nationally recognized model building codes and with other applicable nationally recognized codes." Based on the location and magnitude of GSA's national workload and to ensure uniform compliance nationwide, GSA adopted the technical requirements of the National Building Code (Building Officials and Code Administrators International, Inc.), modified to include the technical requirements of the Life Safety Code (National Fire Protection Association), the seismic safety design requirements of the Uniform Building Code (International Conference of Building Officials), and the windload design requirements of the Standard Building Code (Southern Building Code Congress International), as the nationally recognized model building codes for projects developed by GSA.

Question. Do you supplement this requirement with other local and regional building codes? If so, which local or regional codes do you use?

Answer. GSA has a policy to comply to the maximum extent practicable with local building codes applicable in the jurisdiction. When a project is authorized the appropriate local and/or State officials are given the opportunity to review the project for zoning compliance, review the building design for code compliance, and conduct construction inspections for code compliance.

Question. Is there a legal requirement for GSA to abide by local building codes?

Answer. Section 21 of the Public Buildings Amendments of 1988, Public Law 100-678, 102 Stat. 4049-4054 requires "that each building constructed or altered by GSA

or any other Federal agency shall be constructed or altered only after consideration of all requirements (other than procedural requirements) of zoning laws, and laws relating to landscaping, open space, minimum distance of a building from the property line, maximum height of a building, historic preservation, and aesthetic qualities of a building and other similar laws, of a State or a political subdivision of a State which would apply to the building if it were not a building constructed or altered by a Federal agency." This section also provides for consultation with appropriate State and/or political subdivisions during building plan preparation; submission of building plans to local officials for review; and site inspection by local officials during construction. While it is GSA policy to comply with local building codes to the maximum extent practicable, local and/or State comments are considered to be recommendations and are implemented when feasible and in the best interests of the Government.

[Additional questions submitted for the record by Congressman McDade and the answers thereto follow:]

FIVE-YEAR CAPITAL INVESTMENT PLAN

Question. A March 1992 GAO report, "Federal Office Space: Obstacles to Purchasing Commercial Properties From RTC, FDIC, and Others," criticizes the GSA for its lack of a strategic approach to asset acquisition and management. At that time, GSA indicated a 5-year capital investment plan was in the works.

What is the status of this 5-year capital investment plan? To date, what accounts for the absence of a capital investment plan? What is the status of the five-year Federal Buildings Fund plan for 1993–1997? How does this differ from the 5-year capital investment plan?

Answer. GSA developed its first draft 5-Year Capital Improvement Plan for fiscal years 1992–1996. This document was initially forwarded to the Office of Management and Budget (OMB) in February 1991. In February 1992, the draft plan for fiscal years 1993–1997 was completed by GSA. A draft 5-Year Capital Improvement Plan for fiscal years 1994–1998 was completed in November 1992, and submitted to OMB. These plans were initiated in response to a request by the Senate Committee on Environment and Public Works. The 5-Year Capital Improvement Plan is based on the projects GSA should undertake in order to fulfill its mandate to house client agencies safely, economically, and efficiently and maintain/modernize those assets under our control. The capital investment required to complete the 5-Year Plan exceeds the capital investment resource projections of the FBF over the next 5 years. All 5-year plans are required to be initially submitted to OMB for review.

JUDICIARY'S SPACE REQUIREMENTS

Question. We keep hearing that GSA needs to evaluate the comprehensive long-term space requirements of the Courts, that these needs will consume significant resources in the future, and that the Administrative Office of the Courts (AOC) will submit its long-term space requirements to GSA in May of 1992. What is the status of the AOC report? Is GSA reviewing this submission? What of the status of GSA's review? Will GSA develop a strategic plan to address the space requirements of the Courts? Will these requirements be prioritized?

Answer. The AOC has not submitted an overall long-term space plan to GSA. The AOC has prepared and provided to GSA 30 year long-term space plans for many of their court districts. GSA reviews the plans submitted by the AOC. GSA makes every effort to meet the space requirements of the courts stated in the plans. GSA requires that the chief judge of each district agree to the plan for the district. The appropriate circuit council must inform GSA of their space needs. In most cases these needs are based on the long-range plan. GSA's approach is to build to the 10 year court need with the ability to expand the court facilities in future years if needed.

When determining the priority of funding for court projects, GSA attempts to give the highest priority to what it believes are the most pressing court projects. GSA has requested the AOC's assistance in prioritizing court projects in order to allocate more effectively the scarce resources of the Federal Buildings Fund. The AOC has refused to provide such a priority ranking.

GSA has serious questions about the methodology used by the AOC to project space needs. These concerns have been communicated to the AOC. At the present time the General Accounting Office (GAO) is also looking into the methodology used by the AOC. The GAO report is due for release this spring.

SCRANTON FEDERAL BUILDING

Question. The 1992 Treasury Postal appropriations bill directed the GSA to investigate site acquisition/future expansion of the Scranton Federal Building. Since that time, GSA has been citing a number of reasons why this investigation is not yet complete but, in July of 1992, advised that a review of this project would be complete by December 1992. What is the status of this review?

Answer. A contract for a Prospectus Development Study (PDS) to address the space issues raised in the Long Range Facility Plan for the courts in Scranton was awarded last summer and is nearing completion.

We have evaluated the space situation in Scranton and have concluded that additional space will be required for the courts. Because the additional space requirement cannot be satisfied within the existing Federal building, it appears that a recommendation to construct an annex facility on an adjacent site will be forthcoming.

We anticipate that a request for site acquisition and design will be included in future years's capital program.

FEDERAL BUILDINGS FUND PRIOR YEAR BALANCES

Question. During 1993, it is estimated that 7 percent of total Federal Buildings Fund resources will be available from prior year balances.

Provide historical data (1980–1993) as well as 1994 estimates on prior year balances for the Federal Buildings Fund. What are the sources of this balance?

Answer: The following is a listing of the prior year balances for the Federal Buildings Fund:

Prior year balance

Fiscal year:	*Thousands*
1980	$57,231
1981	139,698
1982	146,413
1983	128,675
1984	138,378
1985	84,812
1986	−10,554
1987	88,649
1988	271,107
1989	399,713
1990	417,719
1991	242,339
1992	343,929
1993	340,379
1994 [1] estimate	

[1] Not available.

These balances result from unobligated balances in the annual accounts, prior year recoveries, balances made available from expired accounts, increases in income above estimates, and most recently the Congress has not authorized GSA to expend all of the available resources.

An estimate of the FY 1994 prior year balance with be reflected in the FY 1994 President's Budget.

FUNDING INCREASES IN REAL PROPERTY OPERATIONS ACTIVITY

Question. Other than "ADP Support" which received a 74 percent increases in funding over the 1991–1993 period, "Other Building Services" received one of the largest increases in funding within Real Property Operations over 1991–1993, jumping to $158.5 million in FY 1993. Please provide a specific listing of these services. Why has there been such a substantial increase in obligations for this activity?

Answer. The Other Building Services functional area includes Regional and Field Office operations, cafeteria and operating equipment purchases, material and equipment evaluations, moving, elevator operations, space changes, and other building support. Most of the increase of $38 million in Other Building Services from FY 1991–FY 1993 is associated with funding GSA-directed moves. This increase of $33 million is due to: full implementation of the Federal Property Management Regulations (FPMR) 101–17—Assignment and Utilization of Space which requires GSA to fund all telecommunication relocation requirements associated with GSA-directed moves; and the growth of the Repairs and Alterations program which frequently re-

quires tenant agencies to relocate temporarily. The balance of the increase, $5 million, is related to inflationary increases (4% in FY 1992 and 2.1% in FY 1993), Wage grade and Classified Pay Act increases, and the increased cost of benefits associated with the Federal Employees Retirement System (FERS).

[Additional questions submitted for the record by Congressman Wolf and the answers thereto follow:]

WASHINGTON AREA AGENCY CONSOLIDATION AND RELOCATIONS

Mr. WOLF. Please provide for the Committee a list of government agencies which have contacted GSA during this fiscal year regarding any proposed relocation or consolidation of federal employees or facilities in the Washington, DC metropolitan area.

ANSWER. Two agencies have contacted GSA's National Capital Region this fiscal year regarding relocation or consolidation. They are:

Federal Elections Commission—currently occupy 65,228 s.f. at 999 E St., N.W. They will require 100,000 s.f. located within the Washington, DC Central Employment Area. Occupancy is needed Fall, 1995.

Department of Defense—currently occupy 4,037 s.f. at two locations in Arlington, VA. They will require 4,037 s.f. in Northern Virginia. Occupancy is expected September, 1993.

Mr. WOLF. Please provide for the Committee a list of all government agencies which, during the fiscal year, have underway relocations or consolidations of facilities in the Washington, DC metropolitan area.

ANSWER. The following agencies have underway relocations and consolidations:

		Square Feet	Occupancy Date
Department of Defense			
From:	1400 S. Eads St. Arlington, VA	50,000	3/94
To:	2 locations in No. VA		
From:	1201 S. Fern St. Arlington, VA	60,000	8/94
To:	Up to 4 locations in No. Va.		
From:	Fort Meyer, Arlington, VA 1900 Half St., SW Washington, DC	65,000	1/94
To:	Northern Virginia		
From:	Jefferson Building Mclean, VA Virginia Square Plaza Arlington, VA	56,000	3/94
To:	Northern Virginia		

		Square Feet	Occupancy Date
From:	4934 Boiling Brook Rockville, MD	31,500	5/93
To:	Gaithersburg, MD		
Agency for International Development			
From:	Main State, Washington, DC Columbia Plaza, Washington, DC 515 22nd St., N.W., Washington, DC Twin Towers, Arlington, VA Rosslyn Plaza E, Arlington, VA Rosslyn Plaza C, Arlington, VA 1515 Wilson Blvd., Arlington, VA 1815 N. Ft. Meyer Dr., Arlington, VA Com-2 Building, MD	641,783	12/97
To:	Up to 3 locations in Ballston/Rosslyn Corridor or Foggy Bottom		
Department of Interior			
From:	Main & South Interior Bldgs. Washington, DC	250,000	7/95
To:	Northern Virginia		
Office of Personnel Management			
From:	1121 Vermont Ave., NW Washington, DC	110,000	6/93
To:	1400 Wilson Blvd. Arlington, VA 901 Stuart St. Arlington, VA		
Department of Agriculture			
From:	Center One, PG County, MD	36,000	12/93
To:	1099 14th St. NW Washington, DC		
Federal Energy Regulatory Commission			
From:	Union Center Plaza	418,000	6/95
To:	Washington, DC Central Employment Area		

	Square Feet	Occupancy Date
Selective Service		
From: 1023 31st St., NW, Washington, DC Value Engineering Alexandria, VA	35,000	Fall/93
To: Northern Virginia		
Consumer Product Safety Commission		
From: Westwood Towers Bethesda, MD	100,000	Summer/93
To: East West Towers Bethesda, MD		
National Oceanic and Atmospheric Administration		
From: S&W Building Rockville, MD Universal Building Washington, DC Washington Science Center Rockville, MD Rockwall Building Rockville, MD	683,000	9/93
To: Silver Spring Metro Center III&IV Silver Spring, MD		
Bureau of Economic Analysis		
From: Tower Building Washington, DC 1110 Vermont Ave., NW Washington, DC	156,000	8/93
To: 1441 L St. NW Washington, DC		
Nuclear Regulatory Commission		
From: Building 7, Bethesda, MD East West Towers, Bethesda, MD Fairmont Bldg., Bethesda, MD NBOC 7, Rockville, MD Philips Bldg., Bethesda, MD Woodmont Bldg., Bethesda, MD	330,000	3/94
To: 2 White Flint, Bethesda, MD		

		Square Feet	Occupancy Date
Department of Justice			
From:	Various DC Locations	209,000	underway
To:	1425 New York Ave., NW Washington, DC		
From:	Indiana Bldg., Wash., DC	114,000	11/94
To:	Metrowide Procurement		
From:	Todd Bldg., Wash., DC	120,186	7/96
To:	Washington, DC procurement		
From:	Multiple Wash., DC locations	386,294	1998
To:	Washington, DC procurement		
From:	Lincoln Place, Arlington, VA	218,000	6/96
To:	Northern Virginia		
From:	Patrick Henry Building Washington, DC	210,000	6/94
To:	Washington, DC procurement		
From:	Main Justice Various DC locations	455,000	12/96
To:	Washington, DC procurement		
Department of Energy			
From:	Temporary space Germantown, MD	75,000	3/94
To:	Germantown, MD		
National Science Foundation			
From:	Multiple DC locations	450,000	underway
To:	Stafford Place, Arlington, VA		
Drug Enforcement Agency			
From:	460 New York Ave., NW Washington, DC	55,000	winter/94
To:	Washington Metrowide procurement		

		Square Feet	Occupancy Date
From:	400 6th St., SW Washington, DC	85,000	winter/95
To:	Washington, DC Central Employment Area		

Federal Communications Commission

From:	1919 M St., NW, Wash., DC 2025 M St., NW, Wash., DC 2000 L St., NW, Wash., DC 1250 23rd St., NW, Wash., DC	335,000	fall/96
To:	Wash., DC Central Employment Area		

Environmental Protection Agency

From:	Waterside Mall, Wash., DC	100,000	fall/93
To:	1120 Vermont Ave. NW, Wash, DC		
From:	Waterside Mall, Was., DC	20,000	fall/93
To:	1825 Connecticut Ave. N.W., Wash., DC		

Federal Labor Relations Authority

From:	500 C St., SW, Wash., DC	40,000	spring/93
To:	Westory Building		

Department of Housing and Urban Development

From:	HUD Building, Wash., DC	40,000	winter/93
To:	L'Enfant Plaza, Was., DC		

Federal Bureau of Investigation

From:	1900 Half St., Wash., DC	230,000	summer/96
To:	New Federal Bldg., Wash., DC		

Bureau of Prisons

From:	Various DC locations	400,000	2000
To:	New Federal Building, Wash., DC		

QUESTION: Could GSA provide for the Committee a list of all leases currently held by GSA in the Washington Metropolitan area which are due to expire this fiscal year?

ANSWER: The following is a list of GSA leases in the National Capital Region which expire in FY 1993:

Building	Location	Expiration date
NW Fed Credit Union	Vienna, VA	10/26/92
Fillmore	Mclean, VA	10/31/92
Hunter Building	Mclean, VA	10/31/92
Prince William Plaza	Woodbridge, VA	11/30/92
Mat Land Co Whse 1	Glendale Heights, MD	12/14/92
400 C Street, SW	Washington, DC	01/02/93
6700 Sprfld Ctr Dr	Springfield, VA	01/12/93
6601 Springfield Ctr	Springfield, VA	01/12/93
Bays Dulles Busi. Pk	Sterling, VA	01/14/93
AMC Building	Alexandria, VA	01/15/93
601 Penn Ave, NW	Washington, DC	01/21/93
601 Penn Ave, NW	Washington, DC	01/21/93
601 Penn Ave, NW	Washington, DC	01/21/93
2025 M Street, NW	Washington, DC	01/31/93
Tyler	Mclean, VA	01/31/93
1023 31st Street, NW	Washington, DC	01/31/93
Indiana	Washington, DC	01/31/93
130 North Royal St	Alexandria, VA	02/04/93
1400 l street, NW	Washington, DC	02/12/93
Hoffman No 2	Alexandria, VA	02/25/93
621 North Payne	Alexandria, VA	02/28/93
621 North Payne	Alexandria, VA	02/28/93
Van Ness Center	Washington, DC	02/28/93
PRC Building	Mclean, VA	02/28/93
8710 Liberia Ave	Manassas, VA	02/28/93
701 Lamont Street, NW	Washington, DC	02/28/93
1120 Vermont Ave	Washington, DC	02/28/93
Columbia Square	Washington, DC	02/28/93
Telegraph Village	Alexandria, VA	03/08/93
1001 Penn Ave	Washington, DC	03/19/93
9140 Hampton Drive	Capitol Heights, MD	03/20/93
Backlick Ctr So	Springfield, VA	03/31/93
Skyline Office Bldg	Falls Church, VA	03/31/93
3833 N Fairfax Dr	Arlington, VA	03/31/93
Union Ctr Plaza So	Washington, DC	03/31/93
1825 K Street, NW	Washington, DC	03/31/93
One Park North	Chevy Chase, MD	03/31/93
Herndon Indus. Park	Herndon, VA	03/31/93
2000 l	Washington, DC	03/31/93
Penn-Belt Center	Forestville, MD	03/31/93
50/66 Office Plaza	Fairfax, VA	03/31/93
460 New York Ave, NW	Washington, DC	03/31/93
20201 Century Blvd	Germantown, MD	04/07/93
1521 Danville St	Arlington, VA	04/08/93
1101 King Street	Alexandria, VA	04/15/93

Building	Location	Expiration date
St. Marys Academy	Washington, DC	04/16/93
Montgomery Center	Silver Spring, MD	04/21/93
Logan Building	Washington, DC	04/21/93
City Bank	Alexandria, VA	04/23/93
Building F	Rockville, MD	04/30/93
Eisenhower Indus Bldg	Alexandria, VA	04/30/93
1850 M Street, NW	Washington, DC	04/30/93
1919 M Street, NW	Washington, DC	04/30/93
1025 Conn Ave, NW	Washington, DC	04/30/93
N-1	Reston, VA	05/05/93
3330 Washington Blvd	Arlington, VA	05/05/93
Spring Pk Tech Ctr	Herndon, VA	05/12/93
Commonwealth	Washington, DC	05/14/93
Scuderi	Hillcrest Heights, MD	05/14/93
Westwood Main Annex	Bethesda, MD	05/15/93
Transpoint	Washington, DC	05/15/93
3702-10 Ironwood Pl	Lanham, MD	05/15/93
Thomas Circle South	Washington, DC	05/22/93
Hoffman No 1	Alexandria, VA	05/24/93
N-1	Reston, VA	05/25/93
4958 Boil Bk Pky	Rockville, MD	05/25/93
1301 Penn. Ave, NW	Washington, DC	05/25/93
12725 Twinbrook Park	Rockville, MD	05/31/93
4934-40 Boil Brook	Rockville, MD	05/31/93
Fairchild Building	Chantilly, VA	05/31/93
3100 Clarendon Blvd	Arlington, VA	05/31/93
Jefferson	Mclean, VA	05/31/93
370 L'Enfant Promen.	Washington, DC	06/16/93
Crystal Square 4	Arlington, VA	06/30/93
Twinpark	Rockville, MD	06/30/93
Nash Street Bldg	Arlington, VA	06/30/93
1901 Chapman Avenue	Rockville, MD	06/30/93
Crystal Square 5	Arlington, VA	06/30/93
Center Bldg No 1	Hyattsville, MD	07/24/93
Sunrise Plaza I	Reston, VA	07/31/93
1120 Vermont Ave	Washington, DC	07/31/93
S&W Bldg	Rockville, MD	07/31/93
2500 Wilson Blvd	Arlington, VA	08/03/93
Tower	Washington, DC	08/06/93
4984-86 Boil Brook	Rockville, MD	08/08/93
1500 Eckington Pl	Washington, DC	08/31/93
Woodmont Complex	Bethesda, MD	08/31/93
Penn 17	Washington, DC	09/30/93
Clarendon Center	Arlington, VA	09/30/93

NATIONAL SCIENCE FOUNDATION

QUESTION: The National Science Foundation has recently agreed to move from its Washington, DC headquarters to a new facility in Arlington, VA. However, the move was delayed for a period of

time by NSF officials. Could GSA provide the Committee the status of the move?

ANSWER: The move has been reactivated with all parties cooperating in order to effect occupancy as early as possible. GSA/NSF/OMB signed a memorandum of agreement to cover the move and related financing. Briefly, GSA will provide funding in FY 1993 with NSF reimbursing its fair share in the following five fiscal years.

The project consists of six phases of buildout and occupancy. GSA has developed a schedule which shows initial occupancy on June 4, 1993, and a final occupancy on October 13, 1993.

This aggressive schedule attempts to restart all the contracting efforts for telecommunications, consulting, support equipment and furniture which were cancelled in October of 1992. The schedule also projects that GSA and NSF catch up to the original schedule by the final phase.

The construction aspects of the project are on the original build-out scheduled dates. The Government has accepted the first two phases and the third phase will come on line on April 16, 1993.

There are nine telecommunications contracts and eleven other procurements which are all being aggressively pushed to award. The systems furniture contract, one of the most critical, has been awarded by GSA-FSS and the manufacturer, Knoll International, is working on an emergency basis with the government.

In summary, the project is now moving at extraordinary speed with good cooperation by all parties.

QUESTION: When will the entire move be complete?

ANSWER: The entire move will be completed on October 13, 1993.

QUESTION: Could GSA provide to the Committee the additional cost to the Government due to the delay by the NSF?

ANSWER: The additional cost to the Government due to stop and restart of the project is projected to be $3.9 million. This is due primarily to payment of rent on vacant space. The lease agreement with the developer, Evans Development, requires buildout and acceptance in accordance with a date-certain schedule. The delay has caused the Government to be unable to take occupancy on the space availability dates.

[Additional questions submitted for the record by Congressman Lightfoot and the answers thereto follow:]

LEASED TO GOVERNMENT-OWNED SPACE RATIO

Mr. LIGHTFOOT. Last year GSA testified that the ultimate goal for owned space versus leased space was 75 percent owned and 25 percent leased and that the current amount of owned space was 57 percent. What is the current percentage of owned space and do you intend to revise your ultimate goal?

Mr. THACKER. The current percentage has declined to slightly less than 54 percent, due in large part to the overall growth of the demand for space having outstripped the growth in the supply of Federally-owned space. In the near future, the Public Buildings Service plans to update the previous study on which this goal was based.

CHILD CARE FACILITIES

Mr. LIGHTFOOT. Based on the number of Federal employees you serve, could you estimate what percentage of them have access to Federally assisted or sponsored child care facilities. Is a goal of GSA's to continue to raise this percentage?

Mr. THACKER. The existing centers represent 6,737 available spaces. The number of Federal employees housed in GSA controlled buildings is one million employees. An average of five percent of the employees at a given site choose on-site child care. That number would probably be greater if more tuition assistance was available. Based on the five percent figure, total available spaces equal 12 percent of today's potential users.

GSA UNDERGROUND STORAGE TANK PROGRAM

Mr. LIGHTFOOT. What progress have you made in removal of leaking underground storage tanks? How many remain to be removed or repaired, and when do you project completing this effort? I am a firm believer that the Federal Government should set an example for the private sector, particularly in areas where the Federal Government places mandates on the private sector.

Mr. THACKER. The underground storage tanks, UST, removed from GSA facilities are either deemed non-essential or replaced with other tanks. The tanks currently listed for removal do not have leaks. However during removal, soil samples are required to be collected and analyzed to determine if contamination exists. We will provide a list of what action has been taken so far.

[The information follows:]

92 USTs have been removed to date. 19 of these tanks were leaking.

19 USTs are planned for removal during fiscal year (FY) 1993. None of these tanks are leaking. Some tanks are being removed because they are non-essential and the product has been drained from the tanks. Other tanks are being removed due to the tank age.

1 UST is scheduled for removal in FY94. This is a non-essential tank and not leaking.

3 USTs are scheduled for removal in FY95. These are non-essential tanks and not leaking.

51 additional tanks are planned for removal, however the field offices have not assigned dates for the removals. To date none of the tanks are being removed due to leaks, however soil samples will be taken during removal.

1 tank to be repaired. This tank is not leaking.

LOCAL MARKET CONDITION AND LEASE RATES

Mr. LIGHTFOOT. What method does GSA use to survey local market conditions and lease rates?

Mr. THACKER. GSA performs market surveys using advertisements in local newspapers to generate expressions of interest from potential offerors. After receiving those responses, a GSA representative visits the offerors responding to the advertisements to view the space that they are interested in offering the Government. In addition, the GSA representative may view other spaces brought to his/her attention by local Real Estate professionals, or visit buildings noted while canvassing the area. By competition through the market survey process, GSA is able to obtain competitive lease rates which reflect the conditions in the local market. Of course, GSA utilizes appraisal reports to provide an independent source to confirm local market conditions.

Mr. LIGHTFOOT. Do you have instances where comparable market rates do NOT cover costs of a particular lease? What recourse do you have to raise rents?

Mr. THACKER. Yes, there are instances where the RENT charged by GSA does not cover the cost of a particular lease. If comparable market rates decline during the term of a lease, our appraisal process will show this and the rate charged by GSA will be less than the rate paid by GSA. The Southwest, Region 7, is an example of where this recently occurred.

GSA has little leeway in raising RENT charged to occupying agencies because of the need for agencies to budget for space charges as much as 2 years in advance. GSA guarantees RENT charges for a specific location if provided to an agency on the budget estimate. Even if market changes support an increase, agencies require sufficient time to budget the increased funds.

DESIGN-BUILD VERSUS TRADITIONAL CONSTRUCTION

Mr. LIGHTFOOT. What percentage of the time do you use "design-build" versus the traditional delivery process in constructing Federal facilities?

Mr. THACKER. Design-Build procurement represents a relatively minor portion of GSA's overall construction program. From an ongoing program of 343 major construction projects in pre-design, design, and construction phases, only 39 are being directed toward Design-Build delivery. Of these Design-Build projects, 12 are associated with new construction, with the balance largely made up of elevator renovations.

Mr. LIGHTFOOT. According to a recent article in *National Journal,* a 1989 GAO study "of 43 proposed construction projects found that building them would cost the Government $12 billion less than leasing the same space over 30 years." Is this general trend still true today?

Mr. THACKER. Yes.

INTERNATIONAL CULTURAL TRADE CENTER

Mr. LIGHTFOOT. I understand that Arthur Andersen did a study last year on the ICTC project. What did that study say about the self-sufficiency of that project and the prospects for breaking even?

Mr. THACKER. As agreed to during a meeting between the Executive Office of the President, the ICTC Commission, the Office of Management and Budget, and GSA, Arthur Andersen and Company was engaged in January, 1992, to provide an independent, third-party analysis of the reasonable likelihood that the ICTC would achieve self sufficiency as required by the Federal Triangle Act.

Arthur Andersen determined that the ICTC had not demonstrated that they would achieve self sufficiency as required by the Act. The basis of their findings will be provided for the record.

[The information follows:]

Lower rental revenue estimates for the ICTC than projected by both ICTC and GSA, based on their assessment of market conditions, the ability of ICTC to attract major tenants and operators, and whether or not the concept could achieve greater lease rates than the surrounding comparable competitive space.

Sources of revenues projected to be received from private contributions and ventures were very tentative and not substantial. Arthur Andersen further observed that the ICTC concept was unique and that to be successful such concepts, in their experience, require:

A strong mission oriented partnership of the public and private sectors;

A firm commitment of adequate financial resources to carry the project and the implementing entity through inception and several years of start-up; and

A rigorously tested business plan, which in its execution, is capable of capitalizing on specific opportunities as they arise and flexibility adapting to changing market conditions.

ICTC RENTAL RATE

Mr. LIGHTFOOT. What rental rate will you have to have to break even? Is that realistic in the Washington commercial rental market?

Mr. THACKER. The cost of amortizing the debt for the projected cost of the Federal Triangle project is $656 million, exclusive of construction period interest that will vary, based on interest rates, but is currently projected at $128 million. If interest rates when the building is completed are in the 8% range, then the 30 year loan amortization amount per occupiable square foot, 1,900,000 o.s.f, excluding parking,

would be approximately $36.00. Other costs for services may average from $12.00 to $14.00 per occupiable square foot.

The present rental range for a comparable property along Pennsylvania Avenue is from $43.00 to $45.00 per rentable square foot. With an average of long term escalation of 4% per year these rates may go to $48.00 to $50.00 by 1996. This translates to a $57.00 to $60.00 rate per occupiable square foot. Recognizing the margin of error in our projections, we still believe that construction and operating costs can realistically be covered by our standard commercially equivalent rent rates.

Mr. LIGHFOOT. What current commitments for occupancy do you have that are of a trade-related nature? What current commitments for occupancy do you have of any nature?

Mr. THACKER.

[The information follows:]

In accordance with the fiscal year 1993 House Report, and as agreed with the Subcommittee, GSA is committed to providing a Housing plan to Congress by May 1, 1993. The Administration is currently reviewing several housing alternatives, one of which will be chosen for the May 1 report.

Mr. LIGHTFOOT. What is the currently projected completion date for the project?

Mr. THACKER. The current projected completion date is July 1996.

Question. Has the GSA ever faced a similar situation in which an agency signed a contract to move to a new facility and then tried to back out of that agreement?

Answer. Yes. In approximately 1987 GSA procured a lease for the Peace Corps (PC) in Arlington VA. In making this procurement, GSA had been led to believe that the PC was in agreement with the decision to award this lease and that the PC would move into the space once the space was built out. However, a new Director of the PC refused to accept the Virginia location and was successful in persuading the Congress that the PC mission required them to remain in the District. Since GSA had already awarded the lease, GSA was forced to find another tenant (DOD) for the building; however, this delay cause GSA to pay rent on an empty building until the new tenant's requirements were finalized and negotiations completed with the building owner for building out the space for the new tenants needs. Since GSA cannot relocate an agency without its cooperation in, (1) planning the move, (2) ordering telecommunications, (3) packing materials to be moved, (4) dismantling and reinstalling systems furniture, and (5) making arrangements to secure sensitive agency materials, GSA's efforts to get agency cooperation must be persuasive rather than threatening.

Question. What enforcement authority is available to the GSA to ensure that agencies comply with the terms of their agreements with the GSA and complete their relocations as agreed?

Answer. Under the Federal Property and Administrative Services Act of 1949, the Administrator of General Services has the authority to assign and reassign space to agencies which do not have statutory authority to acquire space on their own behalf. Agency appeal rights to any space related decision are specified in FPMR Temporary Regulation D–76, Section 101–17.212. In spite of these authorities and appeals procedures, as a practical matter, GSA cannot exercise its authority in a punitive manner due to the need for agency's cooperation with moving arrangements. At best, GSA may assign both the current and new space locations to the agency forcing payment of rent in two locations.

Question. In your opinion, should the GSA have greater authority to force agencies to comply with their relocation agreements and to ensure that they complete their relocations as agreed?

Answer. As noted above, as a practical matter, GSA cannot force an agency to move without the agency's cooperation. An agency which has entered into a relocation agreement should be held accountable for the financial and budgetary implications should they not honor the agreement.

[The justifications follow:]

GENERAL SERVICES ADMINISTRATION
PUBLIC BUILDINGS SERVICE PROGRAM SUMMARY
FY 1992 - FY 1993
(Dollars in Thousands)

	FY 1992 Actual	FY 1993 Estimate
NEW OBLIGATIONAL AUTHORITY		
Construction and Acquisition	456,401	643,312
Repairs and Alterations	606,125	594,066
Design and Construction Services	115,000	179,930
Installment Acquisition Payments	144,587	145,381
Subtotal, Capital Programs	1,322,117	1,562,689
Rental of Space	1,749,291	2,003,897
Real Property Operations	1,105,190	1,174,337
Program Direction	137,748	142,000
Subtotal, Operating Program	2,992,229	3,320,234
Total, New Obligational Authority	4,314,346	4,882,923
Redemption of Purchase Contract Debt	-	327,713
Reimbursable Authority	701,804	645,852
EMPLOYMENT SUMMARY (FTE):		
Direct	9,103	9,095
Reimbursable	540	531
Total	9,643	9,626

SCHEDULE OF UNOBLIGATED AVAILABLE BALANCES
FY 1992 - FY 1993
(Dollars in Thousands)

	FY 1992 Actual	FY 1993 Estimate
Available from prior year for reauthorization	242,339	343,929
Non Appropriation Transfers	(17,912)	(30,828)
Reprogramming of prior year authorities	42,919	36,466
Rescission of prior years authorities	50,000	-
Non-Expenditure Transfer	0	-
Appropriation	273,500	330,501
Authority to borrow	-	327,713
RENT income	3,903,735	4,500,630
Miscellaneous income	5,245	4,000
Outleasing income	2,828	2,000
SSA payments	35,296	36,606
Total Resources Available	4,537,950	5,551,017
New Obligational Authority (-) (Detail below)	4,314,346	4,882,923
Authority to borrow (-)	-	327,713
Prior year recoveries (+)	8,830	-
Balance in expired accounts (+)	-	-
Unobligated balance of annual accounts (+)	111,495	-
Balance Available for Reauthorization	343,929	340,381
Construction and Acquisition	456,401	643,312
Repairs and Alterations	606,125	594,066
Design and Construction Services	115,004	179,930
Installment Acquisition Payments	144,587	145,381
Rental of Space	1,749,291	2,003,897
Real Property Operations	1,105,190	1,174,337
Program Direction	137,748	142,000
Total New Obligational Authority	4,314,346	4,882,923
Redemption of Purchase Contract Debt	-	327,713

FINANCING OF FEDERAL BUILDINGS FUND

The Federal Buildings Fund (FBF) is an intergovernmental revolving fund, authorized and established by the Public Buildings Amendments of 1972 (P.L. 92-313, dated June 16, 1972) to finance Public Buildings Service (PBS) real property management and related activities. It became effective at the beginning of fiscal year 1975, and replaced prior direct appropriations.

The FBF is financed by income from user charges, set at commercially comparable rates, collected from client agencies occupying GSA controlled space. The system used to set rates was originally named "Standard Level User Charges" or "SLUC". The method used to calculate these "commercially comparable" rates has changed and evolved over the years.

THE RENT SYSTEM

At the start of fiscal year 1987, the Rent System replaced SLUC. Although Rent is based on the same legislation and basic principles as SLUC, the rate setting process has been simplified and brought closer to commercial practices.

The Rent system is based upon a five year cycle. The first cycle began in 1987 and ran through 1991. The second cycle started in fiscal year 1992 and runs through fiscal year 1996.

Prior to the start of each cycle, GSA establishes a base rate for each type of space in each GSA controlled building. Rates are specifically developed for every building.

Professional real estate appraisers, under contract to GSA, perform appraisals on all GSA controlled buildings approximately 18 months before the first year of the cycle. GSA controlled properties are compared to similar buildings in the vicinity, according to the standards and techniques of the appraisal profession. The objective is to determine what a private landlord would charge a private tenant for GSA's space. Rates for five types of space are developed through this market analysis approach: office; warehouse; quarters and residence; inside parking; and outside parking. The appraiser also estimates the portion of the commercially comparable rate which represents the cost of services.

Rates for other types of space are derived from the office rates. GSA computes the relationship between the construction cost of non-appraised space to the construction cost of office space. The base rate for office space is then adjusted by this ratio to determine the rate for the non-appraised space.

Certain buildings (special purpose properties) cannot be appraised through the use of comparables. In this case the appraisers utilize the "return on investment" methodology to develop the rates.

The Rent rates for the first year of the cycle are the base rates escalated from the date of the appraisal to the start of the cycle. Rates for the second through the fifth years are adjusted annually according to private sector methods.

The first part of the rate adjustment is to adjust for changes in operating costs. GSA adjusts the operating cost portion of the Rent rate by the percentage increase in actual GSA operating costs experienced in the same geographic area. The second part of the rate adjustment is to adjust for the overall rate of inflation in the locality as measured by the Consumer Price Index (CPI). Most long term commercial leases now provide for a similar adjustment factor. Beginning in fiscal year 1991, GSA adjusts Rent rates by applying 100% of the increase in the local CPI to that portion of the Rent rate that excludes cost of services.

RENT CAPS AND LIMITATIONS

For the most part, funds have been available when needed. However, the FBF has not accumulated sufficient funds to cover the levels of new construction needed to accommodate the growth in Federal activities. Part of this failure is due to the Rent caps and limitations imposed upon the FBF in the past.

From fiscal years 1975 through 1992 the Congress or OMB have imposed various Government-wide and agency specific Rent caps totalling totaling $2.9 billion (the Rent caps and freezes total $5.1 billion in fiscal year 1993 dollars).

Additionally, specific trust fund agencies (Social Security Administration, Health Care Financing Administration, and the Railroad Retirement Board) have had their payments limited to actual cost since the inception of the FBF.

CAPITAL INFUSION TO MEET OWNERSHIP NEEDS

In fiscal years 1991 and 1992 the Congress appropriated $1.9 billion to the FBF in order to construct a number of facilities that the FBF was unable to fund. Additionally, in fiscal years 1987 through 1992 Congress authorized GSA to construct eleven (11) facilities as installment acquisition or lease purchase buildings. The total borrowing authority associated with these projects is $1.9 billion.

These infusions of capital have been important to meeting the increased demand for Federally-owned space. In addition to the office space needs of

the Executive Branch, GSA has invested significant capital in special purpose space needs. Preeminent among these has been, and will continue to be, meeting the expanding needs of the Judiciary. In fiscal years 1988 through 1993 GSA invested approximately $1.6 billion in new facilities for the U.S. Courts.

BUDGET ACTIVITIES

The capital and operating program funds are provided in seven budget activities as follows:

Capital Programs

- Construction and Acquisition
- Repairs and Alterations
- Design and Construction Services
- Installment Acquisition Payments

Operating Programs

- Rental of Space
- Real Property Operations
- Program Direction

Each of these activities is described in detail in the sections that follow this overview.

NEW OBLIGATIONAL AUTHORITY

The revenue that GSA receives from client agencies is deposited into the FBF. Although a revolving fund, the FBF is subject to annual enactment of new obligational authority (NOA), a limitation on the use of revenue, by the Congress, in total and for each of its seven budget activities; it is also apportioned by the Office of Management and Budget (OMB). Funding authorized for Construction and Acquisition of Facilities and Repairs and Alterations prospectus projects are also limited to amounts enacted for each project. The FBF, therefore, operates much like an appropriation with multiple legal limitations on the level of obligations which may be incurred.

Annually enacted NOA is available for various time periods. For Construction and Acquisition of Facilities, Repairs and Alterations, and Design and Construction Services activities, funds are no-year, and unobligated balances are available until expended, provided that some obligation has been incurred against the projects at the end of two fiscal years; if not, authority expires. The other FBF activities are annual, with funds available only for the year in which enacted; unobligated balances remain in the FBF, and require reauthorization.

ANNUAL BUDGET PROCESS

GSA prepares its annual requests by first estimating the revenues that will be available for the budget year. Then, based on estimates of the amount of space and number of personnel that will be housed, GSA determines the cost to provide daily services as reflected in the Operating Programs portion of the budget. Subtracting operating costs from available revenues, retaining a small unobligated balance, results in the amount that is available for the Capital Programs.

One of the first steps that GSA utilizes to establish its Capital program is to evaluate its Repairs and Alterations (R&A) workload. R&A workload requirements originate with scheduled on-site engineering inspections of buildings by in-house and contract engineers. The work identified through these inspections is programmed in order of priority into the Repairs and Alterations Construction Automated Tracking System (RACATS) and incorporated into a five year plan for accomplishment, based upon funding availability and urgency. This analysis further breaks the workload into prospectus and non-prospectus level projects. Non-prospectus level projects and projects which are recurring in nature, such as cyclic painting, the minor repair of defective building systems (e.g., mechanical, plumbing, electrical, firesafety, and elevators) are grouped together into the Minor R&A program request. GSA attempts to maintain a consistent level of funding for this program over time. Significant variations in funding levels can adversely impact the reliability of the prioritization schedules in RACATS and ultimately adversely impact the delivery of required client services.

The level of funding which remains, is available for prospectus level R&A and new construction projects. It is the policy of GSA to increase the ratio of Government-owned to leased facilities as the most economical means of housing Government activities in most geographic locations. Historically this policy has been carried out through direct Federal construction, the purchase of existing commercial buildings, and construction financed through alternative methods, for example, lease purchase. In addition, construction offers the only practical means to meet special purpose needs such as special space required for Courts, laboratories, and border stations.

Of primary importance in funding for general purpose office space is increasing ownership in those geographic areas where: 1) leased space is costly; 2) large amounts of space are currently leased; and 3) a stable, long term Federal presence is anticipated.

In evaluating projects for inclusion into the budget, GSA uses the following review and evaluation criteria:

a. The degree to which the strategy within the community plan achieves GSA/PBS goals and objectives in a logical, economic and feasible manner;

b. Demonstration that the project is an essential part of a sound community plan strategy;

c. Immediacy of need.

d. The priority of the project as determined by the GSA Regional office;

e. The consequences of not doing the project:

f. Whether the project was/was not authorized for design in a previous year;

g. Legislative/procedural requirements; and

h. The economic merit of the project when compared to competing projects in other communities; i.e., return to the FBF and the economic index (A-104).

PLANNING FOR CAPITAL PROJECTS

GSA has established a Project Planning and Review Board (PPRB), comprised of senior GSA managers. It is the responsibility of the PPRB to review each prospectus level project submitted by its Regional Office, in light of the above criteria. After evaluating each project, including on-site review by a Board member, the PPRB develops a priority listing of projects. This listing is then presented to the Commissioner of PBS for review prior to presentation to the Administrator for final decisions on projects to be included in the budget request to OMB.

DELEGATIONS PROGRAM

In fiscal year 1985 GSA implemented the Buildings Delegation Program. Under this program, an agency occupying at least 90 percent of a Government-owned or leased building may request authority from GSA to directly perform certain real property management functions, which include buildings operations, recurring repairs, and lease administration.

GSA budgets for the full cost of delegated buildings through the Federal Buildings Fund. Funding is requested in the same budget activities as those utilized for GSA-operated buildings. Upon approval of an appropriation, funding is transferred to delegatee agencies to perform the delegated functions. Current delegations are funded in three budget activities: Real Property Operations, Repairs and Alterations, and Rental of Space. Agencies continue to budget for and pay full Rent to GSA. The following chart displays delegations funding in 1992 and 1993.

ALLOCATIONS TO OTHER AGENCIES UNDER THE BUILDING DELEGATIONS PROGRAM

(Dollars in Thousands)

Agency	FY 1992 Actual			FY 1993 Estimate		
	Rent	Repairs & Alterations	Real Property Operations	Rent	Repairs & Alterations	Real Property Operations
Department of Agriculture	-	68	1,924	-	66	1,737
Department of the Army	-	294	169	-	416	191
Admin. Office of the U.S. Courts	-	450	1,864	-	148	1,900
Department of Commerce	44,014	897	15,051	45,717	905	15,620
Department of Defense	82,476	1,757	12,901	101,184	879	14,139
Department of Energy	-	1,033	14,020	-	1,043	14,693
Environmental Protection Agency	16,137	-	1,420	35,966	-	1,474
Federal Trade Commission	-	97	1,434	-	98	1,486
Dept. of Health and Human Services	-	2,541	41,311	-	2,564	42,879
Dept. of Housing and Urban Development	-	419	5,323	-	423	5,520
Department of Interior	-	878	13,426	-	886	13,961
Department of Justice	-	1,266	17,562	-	1,276	18,731
Department of Labor	-	627	6,663	-	633	6,909
National Aeronautics and Space Admin.	-	-	-	745	-	48
Nuclear Regulatory Commission	-	123	2,630	-	124	2,761
Office of Personnel Management	-	307	3,845	-	309	3,988
Railroad Retirement Board	-	123	1,658	-	188	1,720
Department of State	-	1,050	9,089	-	1,060	9,835
Department of Transportation	-	122	4,931	-	123	5,187
Department of Treasury	-	2,059	32,872	241	2,109	34,364
United States Information Agency	-	-	90	-	-	93
Total	142,627	14,109	188,183	183,853	13,250	197,236

PERFORMANCE MEASURES

	FY 1992 Actual	FY 1993 Estimate
1. CONSTRUCTION AND ACQUISITION		
a. New Starts (Number of Projects)	19	25
b. New Obligational Authority ($ Millions)	$456	$643
c. Under Construction (Number of Projects)	46	67
2. REPAIRS AND ALTERATIONS		
a. Square Footage Under GSA Responsibility (Mil Sq Ft)	258	265
b. Total New Obligational Authority ($ Millions)	$606	$594
New Obligational Authority - Line Items	340	321
New Obligational Authority - Minor	266	273
c. New Starts - Line Items	50	30
d. Under Construction (Number of Projects)	120	110
e. Number of Modernization Projects Initiated	18	18
f. Total Workload Inventory	$7,794	*
g. Dollar Value of Work in Backlog Status ($ Thousands)	$7,081	**
3. DESIGN AND CONSTRUCTION SERVICES		
a. New Design Starts (Number of Projects)	19	21
R&A Line Items	14	11
New Construction	5	10
b. Total Projects Under Design	50	50
R&A Line Items	39	31
New Construction	11	19
4. INSTALLMENT ACQUISITION PAYMENTS		
a. Number of Projects Completed	63	63
b. Total Principal Payments ($ Thousands)	$37,613	$39,847
c. Total Interest Payments ($ Thousands)	$83,340	$80,017
d. Total Tax Payments ($ Thousands)	$23,509	$25,389
e. Total Administrative Expenses ($ Thousands)	125	128
f. Total Payments ($ Thousands)	$144,587	$145,381
g. Projects Under Construction	6	8
h. Obligations - Lease Purchase Facilities ($ Thousands)	$79,506	$27,000
5. RENTAL OF SPACE		
a. Total Number of Leases	6,339	6,778
b. Total Space in Inventory (Mil Sq Ft)	258	265
Government-Owned	140	139
Leased	118	126
c. Personnel Housed in Government-Owned/Leased Space (Thousands)	1,046	1,097
d. New Obligational Authority ($ Millions)	$1,749	$2,004
e. Office Space Utilization Rate	143	142
f. Ratio of Government-Owned to Leased Space:		
Government-Owned	54%	52%
Leased	46%	48%

*Dollar amount for total workload inventory not available at this time.
**A backlog can only be reported at the end of the fiscal year when all projects have been awarded.

PERFORMANCE MEASURES
(Continued)

	FY 1992 Actual	FY 1993 Estimate
6. REAL PROPERTY OPERATIONS (INCLUDES DELEGATED WORKLOAD)		
a. Average Occupiable Square Feet (Thousands):		
Cleaning	197	198
Utilities and Fuel	234	238
Maintenance	193	194
Other Building Services	257	257
Protection	270	272
b. Unit Cost Per Square Foot:		
Cleaning	$1.26	$1.30
Utilities and Fuel	$1.22	$1.26
Maintenance	$1.02	$1.06
Other Building Services	$0.59	$0.67
Protection	$0.27	$0.28
c. Most Recent 12 Months of Energy Consumption Versus FY 1985. Leased and Government-Owned (BTUs/Thousands):		
Fiscal Year Consumption	77.6	76.4
FY 1985 Consumption (Base Line)	84.2	84.2
Percent Energy Savings to Base Line	-7.8%	-9.3%
d. BTU's Consumed Per Square Foot Versus FY 1985. Government-Owned (BTUs/Thousands):		
Fiscal Year Consumption	75.6	74.4
FY 1985 Consumption (Base Line)	79.2	79.2
Percent Energy Savings to Base Line	-4.5%	-6.0%
e. Total Tons of Material Recycled (Thousands)	36	45

PERFORMANCE MEASURES
(Continued)

	Planned Start Date	Actual Start Date	End Date
7. ADP CONVERSION			
a. Scheduled Completion Dates of Significant Milestones for Converting the PBS Information System (PBS/IS):**			
Award Conversion Contract	03/31/91	03/25/91	06/24/92
Develop Systems Design	10/30/92	09/15/92	03/30/93
Develop Physical Data Base Design	12/30/92	12/01/92	06/30/93
Convert Corporate Applications	06/30/92	06/24/92	09/30/94
Convert Regional Applications	09/01/92	08/25/92	12/30/94
Test and Implement New PBS/IS	10/31/94	-	12/30/94

**The conversion support contract was awarded to Computer Data Systems, Incorporated (CDSI) on June 24, 1992. CDSI has begun establishing the overall technical approach, taking into consideration the details of PBS systems as they exist today. The database design, regional software conversion, and project implementation planning activities.

CONSTRUCTION AND ACQUISITION OF FACILITIES
(Dollars in Thousands)

DIGEST OF NEW OBLIGATIONAL AUTHORITY LEVELS

FY 1992 ACTUAL		FY 1993 ESTIMATE	
Work Years	Amount	Work Years	Amount
N/A	$456,401	N/A	$643,312

BACKGROUND

The Construction and Acquisition of Facilities meets the space needs of federal agencies by funding direct Federal construction, acquisition of excess properties from the U.S. Postal Service and other Governmental agencies, and the purchase of building sites and existing commercial buildings.

It is the policy of the General Services Administration to increase the ratio of Government-owned to leased facilities as the most economical means of housing Government activities in most geographic locations. Historically, this policy has been carried out through direct Federal construction, the purchase of existing commercial buildings, and construction financed through alternative methods, for example, lease purchase. In addition, construction frequently offers the only practical means to meet special purpose needs such as space required for courts, laboratories, and border stations.

Of primary importance in funding for general purpose office space is increasing ownership in those geographic areas where: (1) leased space is costly; (2) large amounts of space are currently leased; and (3) a stable, long term Federal presence is anticipated. The FY 1993 estimate assumes a prospectus limitation of $1,600 thousand.

Southeast Federal Center

The proposed Southeast Federal Center (SEFC) Project will provide first-class office space for 23,000 Federal employees including service amenities such as restaurants and shops. Located in the old Navy Yard (55 acres) along the Anacostia River and adjacent to a new subway station, this one billion dollar project will create an urban atmosphere conducive to a successful waterfront development.

In fiscal year 1991, Congress appropriated $88,000 thousand for the fully funded construction of infrastructure at the Southeast Federal Center (SEFC). In the same year, $148,500 thousand was appropriated for the fully funded construction of a new General Services Administration Headquarters building. In fiscal year 1993, $50,000 thousand was appropriated for the partial construction of the proposed Army Corps of Engineers' facility.

Contingent upon the award of the developer/manager contract in May 1993 and appropriation received in FY 1991, present projections indicate that first occupancy at the SEFC could be as early as September 1996.

Exhibit 51-1 contains a list of FY 1993 projects.

Exhibit 51-1

CONSTRUCTION AND ACQUISITION OF FACILITIES
(Dollars in Thousands)

PROJECTS	SITE	DESIGN	CONST	M&I	TOTAL PROJECT	FY 1993 ESTIMATE THIS ACTIVITY
Nogales, AZ, U.S. Border Patrol Sector Hdqtrs *	--	--	3,000	--	3,000	3,000
Sun City, AZ, Post Office *	--	--	5,000	--	5,000	5,000
Tucson, AZ, NWS & U.S. Geological Survey *	--	--	5,500	--	5,500	5,500
San Francisco, CA, U.S. Court of Appeals Annex	4,400	2,840	41,571	2,661	51,472	4,400
San Francisco, CA, Federal Office Building *	--	--	10,000	--	10,000	10,000
Santa Ana, CA, Federal Building & U.S. Courthouse	250	8,543	168,000	5,193	181,986	2,500
Washington, DC, U.S. Army Corps of Engineers - Hqtrs	--	5,314	95,221	4,779	105,314	50,000
Washington, DC, FBI - Field Office	30,800	3,547	53,790	2,992	91,129	53,790
Washington, DC, U.S. Secret Service - Hqtrs**	50,723	4,687	81,296	3,683	140,389	150,569
Washington, DC, White House Remote Maintenance Facilities	--	2,018	25,531	1,990	29,539	25,531
Ft. Myers, FL, Federal Building and U.S. Courthouse	977	2,012	27,600	2,018	32,607	27,600
Hollywood, FL, Federal Building *	--	--	1,000	--	1,000	1,000
Tampa, FL, U.S. Courthouse	8,948	4,155	68,058	3,403	84,564	8,948
Albany, GA, U.S. Courthouse	--	921	10,334	836	12,091	6,000
Atlanta, GA, CDC - Site, Lab, Office Bldg *	26,000	5,000	45,000	--	76,000	71,000
Hilo, HI, Federal Building *	--	--	1,500	--	1,500	1,500
Chicago, IL, GSA District Office *	--	--	4,000	--	4,000	4,000
Boston, MA, U.S. Courthouse ***	34,000	11,805	172,000	5,395	223,200	20,000
Kansas City, MO, Federal Building - U.S. Courthouse	5,721	5,565	99,103	4,087	114,476	5,721
Reno, NV, Federal Building - U.S. Courthouse	4,000	2,321	35,000	2,296	43,617	35,000

Notes:
* Projects added through Congressional action and may not represent full project funding.
** Current project estimate. Another $4,400 was appropriated in FY 1992 to fund some special client requirements.
***Represents full project funding in one budget activity.

PUBLIC BUILDINGS SERVICE
Federal Buildings Fund

CONSTRUCTION AND ACQUISITION OF FACILITIES
(Dollars in Thousands)

Exhibit 51-1(Cont'd)

PROJECTS	SITE	DESIGN	CONST	M&I	TOTAL PROJECT	FY 1993 ESTIMATE THIS ACTIVITY
Concord, NH, Federal Building - U.S. Courthouse	G-O	2,461	36,576	2,411	41,448	36,576
Newark, NJ, Parking Facility**	--	--	9,000	--	9,000	9,000
Albuquerque, NM, Federal Building - U.S. Courthouse	3,118	3,208	47,985	2,823	57,134	3,118
Brooklyn, NY, U.S. Courthouse *	30,000	25,000	295,000	9,500	359,500	15,000
Long Island, NY, Federal Building & U.S. Courthouse	5,200	9,507	193,783	5,791	214,281	5,200
Fargo, ND, Federal Building & U.S. Courthouse	--	--	23,000	--	23,000	23,000
Portland, OR, Bonneville Power Building Claim	--	--	3,590	--	3,590	3,590
Scranton, PA, General Mail Facility **	--	--	3,000	--	3,000	3,000
Columbia, SC, U.S. Courthouse Annex ***	4,019	2,918	44,065	2,638	53,640	4,019
Laredo, TX, Federal Building - U.S. Courthouse	6,047	2,440	34,275	2,410	45,172	3,000
Highgate Springs, VT, Border Station	250	631	6,851	567	8,299	250
Seattle, WA, U.S. Courthouse	12,000	--	--	--	12,000	12,000
Beckley, WV, Federal Building & U.S. Courthouse	--	--	35,000	--	35,000	10,000
Allentown, PA, Federal Building & U.S. Courthouse	17,000	--	--	--	17,000	17,000
Non-Prospectus Projects	--	619	7,500	465	8,584	7,500
TOTAL	243,453	105,512	1,692,129	65,938	2,107,032	643,312

Notes:
* Congress added funds for site and design, balance reflects current GSA estimate.
** Projects added through Congressional action and may not represent full project funding.
*** Site added by Congress, balance reflects current GSA estimate.

REPAIRS AND ALTERATIONS
(Dollars in Thousands)

DIGEST OF NEW OBLIGATIONAL AUTHORITY LEVELS

CATEGORY	FY 1992 ACTUAL		FY 1993 ESTIMATE	
	Work Years	Amount	Work Years	Amount
Line Item	N/A	$339,794	N/A	$320,766
Non-line Item	N/A	$266,331	N/A	$273,300
Total	N/A	$606,125	N/A	$594,066

BACKGROUND

Under this activity, the General Services Administration (GSA) executes its responsibility for repairs and alterations (R&A) of both Government-owned and leased facilities under the control of GSA. The major goal of this activity is to provide commercially-equivalent space to tenant agencies. Safety, operating efficiency, and quality of facilities are given primary consideration in carrying out this responsibility. The FY 1993 program continues to emphasize work necessary to keep the buildings in a state of repair, modernize outdated space and facilities, improve health and safety features, provide new court space, recapture vacant Government-owned space, and address other special program needs.

R&A workload requirements originate with scheduled on-site engineering inspections of buildings by in-house and contract engineers. The work identified through those inspections is programmed in order of priority in to the Repairs and Alterations Construction Automated Tracking System (RACATS) and incorporated into a five-year plan for accomplishment, based upon funding availability and urgency.

The R&A program, for purposes of fund control, is divided into two types of projects: line item and non-line item. The following is a definition of these categories:

1. Line Item Projects - Line item projects are those larger projects in Governmewnt-owned space for which a prospectus authorization is required under the provisions of the Public Buildings Act of 1959, as amended. Consistent with the provisions of Public Law 100-678, the dollar amount relating to prospectus authorization may be adjusted annually by the Administrator to reflect a percentage increase or decrease in construction costs during the preceding calendar year. The FY 1993 estimate assumes a prospectus limitation of $1,600 thousand. Generally, line item projects are similar to new construction projects in the scope of work involved and the multi-year time frame for project completion. Line item projects are listed individually in GSA's Appropriation Act and the obligational authority for each project is limited to the amount authorized.

R&A line item projects are categorized as follows: 1) accomplishing repair and modernization work; 2) ensuring the safety and health of building occupants and visitors; 3) recapturing vacant space for occupancy; 4) supporting the U.S. Courts; and 5) serving special program needs. A line item project may include work in more then one category. They are:

REPAIRS AND ALTERATIONS
(Dollars in Thousands)

Repair/Modernization includes work essential to the preservation of the value and continued use of Federal assets. Repair work is necessary to restore the operation of systems and equipment due to deterioration and malfunctions, and to restore equipment and material of a building to an acceptable operating condition. Modernization is the updating of a facility's operating system to provide an environment for the tenants to perform their mission efficiently and effectively. Work funded under this category would include the installation of new mechanical, electrical, and support systems/equipment.

Health and Safety is work essential for the protection of building occupants and visitors. Work includes, but is not limited to, the installation of fire/smoke detection and sprinkler systems, installation of elevator capture systems, and asbestos abatement projects.

Recapturing Vacant Space is work necessary to renovate vacant space for occupancy. In many cases, tenants can then be relocated from high-cost leased space.

Program Supporting the U.S. Courts is the construction of new courtrooms and ancillary facilities in existing Federal buildings.

Special program needs work represents unique requirements not specifically covered under the other four categories (for example, handicapped accessibility, energy conservation, historic preservation, environmental protection, and seismic upgrading projects).

2. Non-Line Item Projects - This category includes all nonrecurring Repair and Alteration projects for which obligations at a single location within a fiscal year are below the prospectus threshhold. Projects included in this category are generally short-term in nature, and funds can normally be obligated within a one-year period. This category also includes projects which are recurring in nature, such as cyclic painting and pointing and the minor repair of defective building systems (e.g., mechanical, plumbing, electrical, firesafety, and elevator system components), and all R&A projects in leased facilities, regardless of size. After initial build-out, any further Repairs and Alterations work in leased buildings requires a prospectus whenever the estimated total cost of the project exceeds the prospectus threshhold for leased space.

DESIGN FUNDING

Design funding for all the line item projects planned for construction funding in FY 1993 (excluding Avondale, MD, De LaSalle building which was fully funded from R&A) was included in the FY 1992 or prior year design budgets. Design funding prior to construction ensures timely delivery of the projects. The Architechtural/Engineering (A/E) selection process is initiated when the design prospectus and budget are submitted. A/E award is then possible early in the fiscal year when funds become available. This schedule provides a one-to-two year period for design and construction contract award which is generally sufficient on all projects.

BUILDING DELEGATIONS

GSA is continuing its oversight and budgeting responsibilites under its Building Delegation Program. GSA budgets directly within the Federal Buildings Fund for all buildings delegated under the provisions of GSA's standard delegation agreement. Each year participating agencies receive funding from GSA to accomplish recurring repairs to these buildings.

ENERGY REBATES

Public Law 102-393, making funds available for FY 1993, contains a provision (Section 13) authorizing GSA to receive and use any revenue received as "rebates, cash incentives or otherwise" related to energy savings or materials recycling efforts and to increase the New Obligational Authority accordingly.

Exhibit 54-1 contains a summary of FY 1993 new obligational authority by project.

EXHIBIT 54-1

REPAIRS AND ALTERATIONS
FY 1993 NEW OBLIGATIONAL AUTHORITY PROJECT LISTING
(Dollars in Thousands)

		HEALTH AND SAFETY WORK						
	Repair/ Modernization	Asbestos Abatement	Other	TOTAL	Vacant Space Recapture	U.S. Courts	Special Programs	TOTAL PROJECT
NON-LINE ITEM PROGRAM	125,211	10,442	23,073	33,515	54,501	11,624	48,449	273,300
LINE ITEM PROJECTS								
San Francisco, CA, Court of Appeals	45,063	3,318	3,107	6,425	--	352	39,723	91,563
Lakewood, CO, DFC Bldg 56	3,735	447	196	643	--	--	--	4,378
Lakewood, CO, DFC, Bldg 67	3,041	318	81	399	--	--	58	3,498
Lakewood, CO, DFC, Bldg 810	--	--	--	--	9,975	--	--	9,975
Hartford, CT, A A Ribicoff FB-CT	6,305	--	1,474	1,474	--	--	229	8,008
Washington, DC, Agriculture Admin Bldg	545	1,470	5,180	6,650	--	--	--	7,195
Washington, DC, F Perkins DOL Bldg	1,097	--	7,403	7,403	--	--	--	8,500
Boise, ID, FB-CT	1,284	2,897	690	3,587	--	3,743	738	9,352
New Orleans, LA, Customhouse	1,008	185	459	644	2,796	--	1,268	5,716
Avondale, MD, De LaSalle Bldg	--	--	--	--	9,170	--	--	9,170
Baltimore, MD, Customhouse	5,744	--	1,628	1,628	3,740	--	766	11,878
Baltimore, MD, George H Fallon FB	13,761	7,294	--	7,294	--	--	246	21,301
Battle Creek, MI, FC	19,411	2,918	2,594	5,512	1,274	--	--	26,197
Detroit, MI, FB-CT	840	1,203	--	1,203	--	4,933	--	6,976
New York, NY, Jacob K Javits FB (Ph 1)	14,903	5,535	--	5,535	--	--	3,000	23,438
Oklahoma City, OK, FB-CT	987	554	1,572	2,126	--	6,613	640	10,366
Tulsa, OK, FB	1,300	--	918	918	5,103	1,009	128	8,458
Providence, RI, J O Pastore FB-PO	4,206	--	921	921	--	--	106	5,233
Austin, TX, Thornberry Judicial Center	--	--	--	--	3,186	--	--	3,186
Houston, TX, Customhouse	2,507	453	667	1,120	--	--	1,038	4,665
Yalete, TX, Border Station	--	--	--	--	--	--	7,500	7,500
Ogden, UT, IRS Center	4,194	100	26	126	--	--	564	4,884
Richmond, VA, FB	21,650	290	2,060	2,350	--	--	--	24,000
Seattle, WA, Henry M Jackson FB	1,051	2,243	319	2,562	--	--	1,716	5,329
LINE ITEM SUBTOTAL	152,632	29,225	29,295	58,520	35,244	16,650	57,720	320,766
R&A PROGRAM TOTAL	277,843	39,667	52,368	92,035	89,745	28,274	106,169	594,066

DESIGN AND CONSTRUCTION SERVICES
(Dollars in Thousands)

DIGEST OF NEW OBLIGATIONAL AUTHORITY LEVELS

FY 1992 ACTUAL		FY 1993 ESTIMATE	
Work Years	Amount	Work Years	Amount
716	$ 115,004	716	$ 179,930

BACKGROUND

The Design and Construction Services activity provides for design, management and inspection of construction, repairs and alterations projects, and non-project-specific technical services. This includes the full range of design and construction services required by the Public Buildings Service (PBS) incident to projects approved under the Public Buildings Act of 1959, as amended, and all related costs such as travel, printing, advertising, and defense of claims against the Government.

The definitions of the three major functions within the Design and Construction Services activity follows:

- Design is a combined narrative and graphic representation of a renovation or restoration of an existing facility or construction of a new facility. The design process includes development of detailed plans, specifications, and drawings which are ultimately marketed for construction award to a responsible contractor; evaluation of soil conditions; and other required surveys and tests.

- Management and Inspection (M & I) is the physical examination of the quantity and quality of materials and workmanship put in place at a construction site to ensure conformance with contract requirements. This function includes project review to ensure adherence to procurement regulations; safety program enforcement; determination of contract modification needs; development of cost and time estimates; and the evaluation of construction progress to determine contractor payments.

- Technical Services provides for planning and administration of the PBS capital improvements program including building inspections, surveys, preliminary planning, and scope development.

Site acquisition costs and construction ("brick and mortar") costs are not financed by this activity. The site acquisition and construction for new construction projects are financed by the Construction and Acquisition of Facilities program. The construction phase of repairs and alterations projects are financed by the Repairs and Alterations program. Reimbursable services provided to other agencies for transfer construction and reimbursable work authorizations are shown in the Design and Construction subactivity of the Reimbursable program.

INSTALLMENT ACQUISITION PAYMENTS
SUMMARY OF INSTALLMENT ACQUISITION COSTS
(Dollars in Thousands)

DIGEST OF NEW OBLIGATIONAL AUTHORITY LEVELS

	FY 1992 Actual			FY 1993 Estimate		
	Purchase Contracts	Installment Purchase	Total	Purchase Contracts	Installment Purchase	Total
Principal	$ 37,613	$ -	$ 37,613	$ 39,847	$ -	$ 39,847
Interest	68,691	14,649	83,340	66,608	13,409	80,017
Taxes	23,509	-	23,509	25,389	-	25,389
Administrative Fee	125	-	125	125	3	128
Total Obligations	$129,938	$14,649	$144,587	$131,969	$13,412	$145,381
Non-Expenditure Transfers - FFB	$13,799	$1,180	$14,979	$29,582	$1,246	$30,828
Number of Projects	62	1	63	62	1	63

BACKGROUND

This activity has historically funded the financing of Purchase Contracts authorized by the Public Buildings Amendments of 1972. Commencing in FY 1991, it also includes interest on lease purchase arrangements authorized by Congress.

The Public Buildings Amendments of 1972 enabled GSA to enter into contractual arrangements for the construction of a backlog of approved but unfunded projects. The purchase contracts require the Government to make periodic payments on these facilities over varying periods until title is transferred to the Government. This activity provides for the payment of principal, interest, taxes and other required obligations related to facilities acquired pursuant to the Public Buildings Amendments of 1972 (40 U.S.C. 602a). Sixty-eight buildings were constructed through purchase contract agreements; six have been prepaid.

The purchase contract method of construction has utilized two systems of financing - the Package System and the Dual System.

Package System

Under the Package System of financing, the successful bidder was required to finance and construct the facility and, upon completion, transfer the improvements to the Government for the purchase price. This purchase price was amortized over a thirty-year term through semi-annual payments by the Government, including interest at the contractor's bid rate. This system was used for twenty-three small projects constructed under the Public Buildings Amendments of 1972. Payments of principal, interest, and taxes on package system projects began after construction was substantially completed and the purchase contract was consummated (i.e., the date of the purchase contract). The first payment of principal and interest became due six months thereafter, with semi-annual installments paid over a term of thirty years.

Dual System

The Dual System of financing involved separate contracting for construction and financing. Construction contracting was done in the same way as under direct Federal construction; however, to secure the necessary financing, a trust was established. Pursuant to an indenture between GSA and the trustee, certificates were competitively bid and sold to securities underwriters. In order to achieve favorable market acceptance, several projects were grouped under each indenture, and payments of principal and interest were made on each group of projects over a thirty-year term.

INSTALLMENT ACQUISITION PAYMENTS
SUMMARY OF INSTALLMENT ACQUISITION COSTS
(Dollars in Thousands)

Certificates were sold to security underwriters to finance the construction of twenty-nine buildings.

For Dual System projects, the date of the purchase contract is the date of the initial financing or commitment, and the term is thirty years. Under this system, taxes are paid from the Federal Buildings Fund from the beginning of the construction period until such time as title to the building is transferred to the Government. However, interest and administrative expenses during the construction period were paid directly from the proceeds of the sale of participation certificates. At a predetermined date, the purchase contract price for each group of projects (which includes all project costs plus capitalized interest) is amortized over the remaining life of the purchase contract according to an established sinking fund.

Federal Financing Bank

A variation of the Dual System has been incorporated in financing arrangements with the Federal Financing Bank (FFB), which provided for the construction of an additional sixteen buildings. Under this variation, a commitment was made by the FFB at the initial date of the purchase contract. This commitment was drawn down monthly as funds were required for each project. This procedure eliminated carrying costs associated with investing unused funds, and thus reduced the total cost of the purchase contract financing.

Principal payments to the FFB for repayment of Purchase Contract loans are treated as repayment of agency borrowings from the FFB. Such repayments are not recorded as an obligation and outlay of the Federal Buildings Fund (FBF); but, instead, are recorded as a non-expenditure transfer from the unobligated balance of the FBF. Legislation has been approved by the Congress which authorized the Administrator of GSA to transfer funds from the FBF to repay the principal amount of agency borrowings from the FFB. Therefore, new obligational authority for principal payments to the FFB is not required.

Installment (Lease) Purchase

This activity also provides for the payment of interest and other required obligations related to facilities acquired by installment (lease) purchase arrangements. Since 1987 Congress has authorized GSA to make periodic payments on these facilities over varying periods, usually 30 years. Permanent financing for all these projects will be through the FFB; principal repayments are therefore shown as non-expenditure transfers. The new Federal Building in Chicago, Illinois, was completed in June of 1991 and the new Federal Buildings in Oakland, California and Miami, Florida, are scheduled for completion in FY 1993. The new Federal Building for the Center of Disease Control (CDC) in Chamblee, Georgia will also be completed in FY 1993; principal and interest costs will be reimbursed annually to the FBF by CDC over the life of the lease purchase agreement.

The principal balances remaining to be retired after FY 1993 are:
(a) Purchase Contracts - Federal Financing Bank (FFB) ($729,429 thousand)
(b) Purchase Contracts - Non-Federal Financing Bank ($51,485 housand) and
(c) Installment (Lease) Purchase ($844,310 thousand) for a total of $1,625,224 thousand. For discussion of associated Borrowing Authority see next page.

Refinancing of Purchase Contract Participation Certificates

In order to take advantage of lower interest rates GSA is in the process of refinancing it's outstanding Public Building Trust Participation Certificates through borrowings from the FFB. Annual payment streams will not be adjusted. Interest savings will be used to shorten the overall debt. By refinancing this long term debt, the Federal government will realize savings of approximately $23.8 million.

CONSTRUCTION OF LEASE PURCHASE FACILITIES
(Dollars in Thousands)

AUTHORITY TO BORROW

FY 1992 ACTUAL		FY 1993 ESTIMATE	
Work Years	Amount	Work Years	Amount
N/A	N/A	N/A	N/A

BACKGROUND

Since 1987, Congress, in annual Appropriations Acts, has authorized GSA to enter into installment (lease) purchase arrangements for the construction of a number of individual projects. The language authorizing each lease purchase project provides for payment of principal and interest by installment over a certain number of years (usually 30 years). Eleven of these authorized projects were scored as Authority to Borrow in FY 1990. The construction period financing for these projects will take different forms. Eight of the projects have already been awarded. Four are being financed by the developer during the construction period. Because of the need to get the lowest possible financing rate, construction of the remaining seven will be financed through the Federal Financing Bank (FFB). The permanent financing for all projects will be with the FFB. Total Authority to Borrow for eleven of these projects was reflected in the FY 1990 column of the FY 1992 President's Budget in the amount of $1,945,065.

The FY 1993 Construction of Lease Purchase Facilities program has no additional borrowing authority. Current plans for construction of the projects authorized in previous years indicate that obligations in the amount of $690,362 thousand will be incurred in FY 1993. Obligations include the principal cost of permanent financing for each project.

Obligations for interest payments will be reflected in Installment Acquisition Payments in future years as interest payments become due.

Exhibit 52-1 contains a project listing of lease purchase facilities.

PUBLIC BUILDINGS SERVICE
Federal Buildings Fund

Exhibit 52-1

CONSTRUCTION OF LEASE PURCHASE FACILITIES
PROJECT LISTING
(Dollars in Thousands)

	PROJECT START DATE	PROJECT COMPLETION DATE	PROJECT COST	CONSTRUCTION INTEREST	AUTHORITY TO BORROW
DEVELOPER CONSTRUCTION FINANCING (PROJECT COST INCLUDES Construction Interest)					
California, Oakland, FB	12/90 (A)	8/93 (E)	190,500	--	190,500
Georgia, Atlanta, CDC	9/93 (E)	5/95 (E)	27,000	--	27,000
Georgia, Chamblee, CDC/Office	6/90 (A)	4/93 (E)	5,036	--	5,036
Illinois, Chicago, FB	5/89 (A)	6/91 (A)	160,000 1/	--	160,000 1/
FFB CONSTRUCTION FINANCING (PROJECT COST EXCLUDES Construction Interest)					
California, San Francisco, FB	2/95 (E)	4/98 (E)	120,608	18,185	138,793
Florida, Miami, FB	6/92 (A)	6/93 (E)	14,400	600	15,000
Georgia, Chamblee, CDC/Lab	10/93 (E)	6/95 (E)	23,000	2,476	25,476
Georgia, Chamblee, IRS	9/92 (A)	5/96 (E)	85,214	15,155	100,369
Maryland, Woodlawn, HCFA	12/92 (A)	6/95 (E)	142,000	25,130	167,130
New York, New York, Foley Square	3/91 (A)	12/94 (E)	855,262	151,356	1,006,618
Tennessee, Memphis, IRS	10/91 (A)	10/95 (E)	94,100	15,043	109,143
(Total Projects - 11)			1,717,120	227,945	1,945,065

(A) ACTUAL
(E) ESTIMATED

1/ Actual cost is 156,942 thousand.

RENTAL OF SPACE
(Dollars in Thousands)

DIGEST OF NEW OBLIGATIONAL AUTHORITY LEVELS

FY 1992 ACTUAL		FY 1993 ESTIMATE	
Work Years	Amount	Work Years	Amount
N/A	$1,749,291	N/A	$2,003,897

BACKGROUND

The General Services Administration (GSA) is responsible for leasing general purpose space and land incident thereto for Federal agencies except for cases where GSA has delegated leasing authority for specific locations (e.g., the Veterans Administration, and Departments of Agriculture, Commerce, and Defense). GSA's policy is to lease privately-owned buildings and land only when: (1) Federal space needs cannot be otherwise accommodated satisfactorily in existing Government-owned or leased space; (2) leasing proves to be more cost-effective than the construction or alteration of a Federal building; (3) construction or alteration is not warranted because requirements in the community are insufficient or are indefinite in scope or duration; or (4) completion of a new Federal building within the necessary time-frame cannot be assured.

Since 1975 the inventory of GSA-controlled leased space has increased 32.5 million square feet, or 38 percent, while the cost of that space has quadrupled. The expiration of long-term (10 to 20 years) leases that were made at favorable rates during the 1960's and early 1970's is causing rental costs to escalate significantly. This trend is expected to continue through the out-years, unless specific action is taken that will reverse the trend. There are four types of action that can be taken: (1) reduce Federal space needs by reducing Federal programs; (2) replace costly leased space with cost effective Government-owned space; (3) reduce the leased space inventory by promoting more efficient utilization of existing space; and (4) identify and dispose of unnecessary or underutilized leased space. Although the first type of action does not fall within GSA's scope of responsibility, the other three types of action do.

CURRENT INITIATIVES TO REDUCE LEASED SPACE COSTS

Reduction of leasing costs is one of GSA's primary objectives. GSA has undertaken several broad initiatives to achieve this objective:

o Replacement of leased space with Government-owned space in those geographic locations were economically justified through:

- Direct Federal Construction;
- Recapture of vacant Government-owned space through renovation;
- Installment Purchase Agreements; and
- Building Purchase;

o Reduction of the leased space inventory by more efficient utilization of existing space. Programs have included:

- The targeting of Repairs and Alterations resources for projects that will result in improved utilization rates;
- Providing space planning services to selected agencies that wish to reduce their space utilization rates (GSA also offers a mechanism by which agencies may lease space-efficient systems furniture); and
- The development of space assignment criteria under Federal Property Management Temporary Regulation D-76, Chapter 101-17.

o Identification and disposal of unnecessary space. Programs include:

- Warehouse consolidation; and
- Reduction of storage requirements.

RENTAL OF SPACE
(Dollars in Thousands)

To the extent that the paybacks from these initiatives can be reasonably projected, they have been reflected in the estimates for the Rental of Space activity.

INDEFINITE AUTHORITY

Appropriation Act language enacted for FY 1992 included a general provision that permits GSA to increase the New Obligational Authority (NOA) by an indefinite amount to the extent agencies provide rental payments to GSA for expansion space. This provision is permanent in nature and may be exercised in future years without repetition in the GSA General Provisions. The indefinite authority language was exercised in FY 1992 to provide $83,391 thousand for expansion space. GSA plans to exercise this provision in FY 1993 to provide $129,206 thousand for FY 1993 anticipated expansion space.

The Rental of Space program is summarized below: ($000's)

	FY 1992	FY 1993
Congressional Action	$1,568,900	$1,898,691
FY 1992 Reprogramming	97,000	-
FY 1992 Indefinite Authority	83,391	-
FY 1993 Reprogramming	-	(24,000)
FY 1993 Indefinite Authority	-	129,206
Revised NOA Levels	$1,749,291	$2,003,897
Obligations	- 1,676,022	- 2,003,897
Unobligated Balance	$ 73,269	-
EOY Leased Inventory	118,275	126,504
Expansion Square Feet	12,137	11,529

Currently, GSA has in its leased inventory approximately 115,728 thousand square feet of space, excluding U.S. Postal Service (USPS), where it is committed to make rental payments over remaining terms of the leases. At the end of FY 1992, the minimum rental payments for these leases over their remaining terms was approximately $6.4 billion. This number does not reflect terminations, replacement or renewal of leases which will be necessary to meet the constantly changing needs of client agencies.

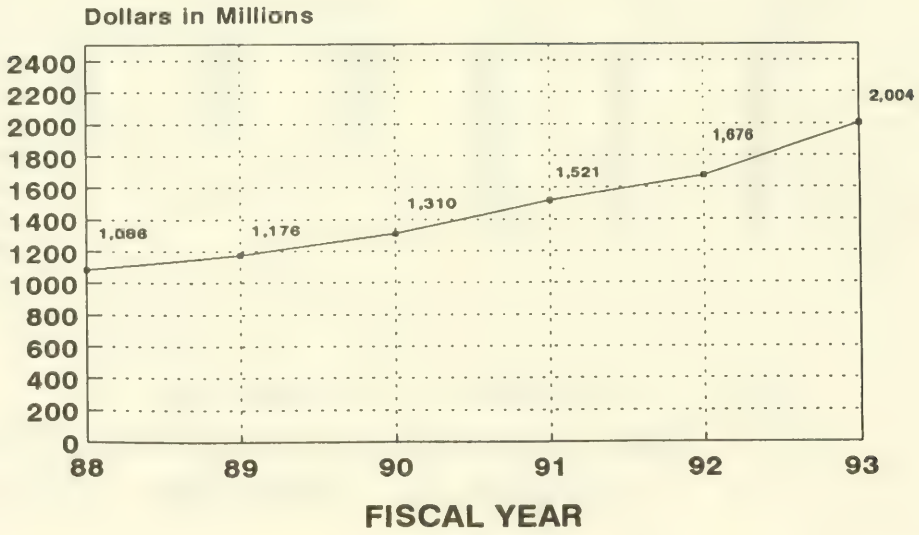
In conjuction with the President's real property management initiative, the Building Delegation Program was expanded to include not only single tenant Government-owned but also single tenant leased buildings. Under this program, delegatee agencies are responsible for lease management as prescribed in delegation agreements. GSA continues to budget directly within the Federal Buildings Fund for all delegated buildings. Each year funding is transferred to each participating agency to make rental payments to lessors in accordance with the provisions of the delegation agreements. The FY 1993 allocation to other agencies under the Building Delegation Program is $183,853 thousand.

This budget also reflects payments of: (1) $42,734 thousand to the U.S. Postal Service (USPS) for 2,547 thousand square feet of space occupied in USPS buildings by Federal agencies for which GSA is responsible for providing space; and (2) $14,928 thousand for 1,586 thousand square feet for leases with purchase options upon final lease expiration.

The following Exhibits contain further information regarding the Rental of Space activity:

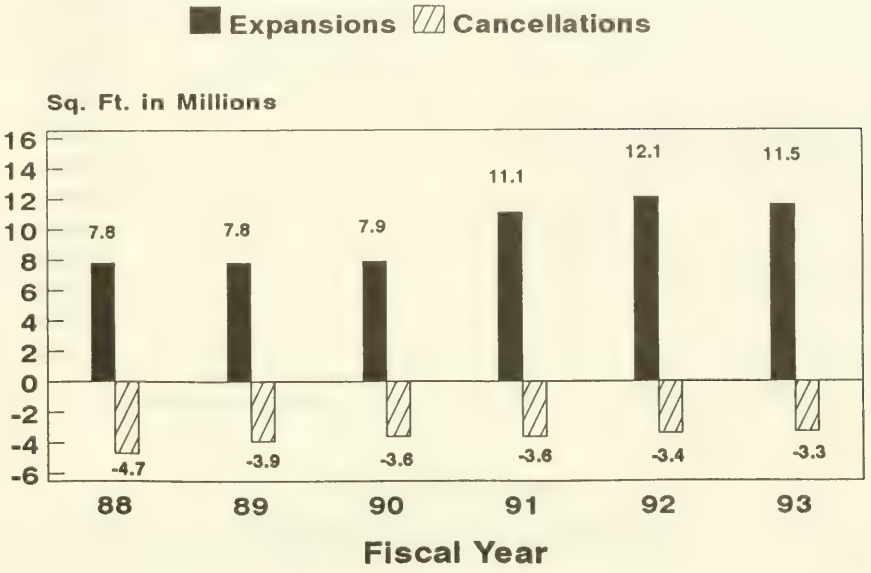
Exhibit 53-1	Obligations
Exhibit 53-2	GSA-Controlled Leased Space, Expansions and Cancellations
Exhibit 53-3	Leased Space Inventory Related to FY 1993 Request
Exhibit 53-4	Inventory of Space
Exhibit 53-5	Cost of Leased vs. Gov't Owned Space
Exhibit 53-6	Inventory of Leased vs. Gov't Owned Space

RENTAL OF SPACE
OBLIGATIONS



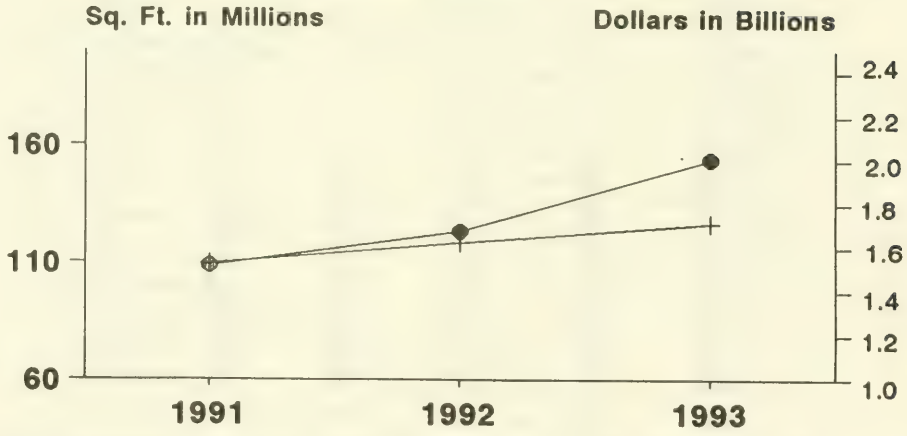
RENTAL OF SPACE

GSA-CONTROLLED LEASED SPACE



RENTAL OF SPACE

LEASED SPACE INVENTORY RELATED TO FY 1993 ESTIMATE



	1991	1992	1993
SQUARE FEET	109.5	118.3	126.5
OBLIGATIONS	1.521	1.676	2.004

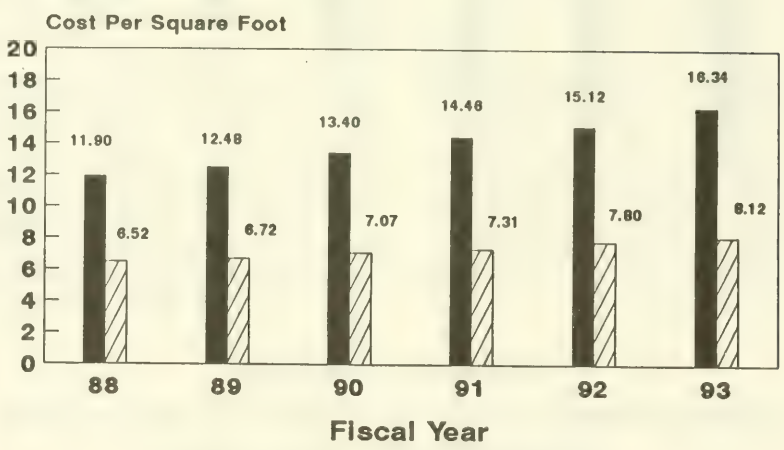
RENTAL OF SPACE
INVENTORY OF SPACE
(Square Feet in Thousands)

	FY 1992 ACTUAL	FY 1993 ESTIMATE
TOTAL SPACE IN INVENTORY (SQ. FT.)*	257,768	265,297
ASSIGNED**	238,772	250,247
VACANT	18,996	15,050
% OF TOTAL SPACE IN INVENTORY		
GOVERNMENT-OWNED	54%	52%
LEASED	46%	48%
GOVERNMENT-OWNED INVENTORY (SQ. FT.)	139,493	138,793
ASSIGNED	124,806	127,793
VACANT	14,687	11,000
LEASED SPACE INVENTORY (SQ. FT.)***	118,275	126,504
ASSIGNED	113,966	122,454
VACANT	4,309	4,050
WORKSTATIONS	1,045,993	1,097,368
NUMBER OF LEASES	6,339	6,778

* Does not include outside parking
** Includes PBS space which is exempted from RENT
*** Includes space in USPS facilities

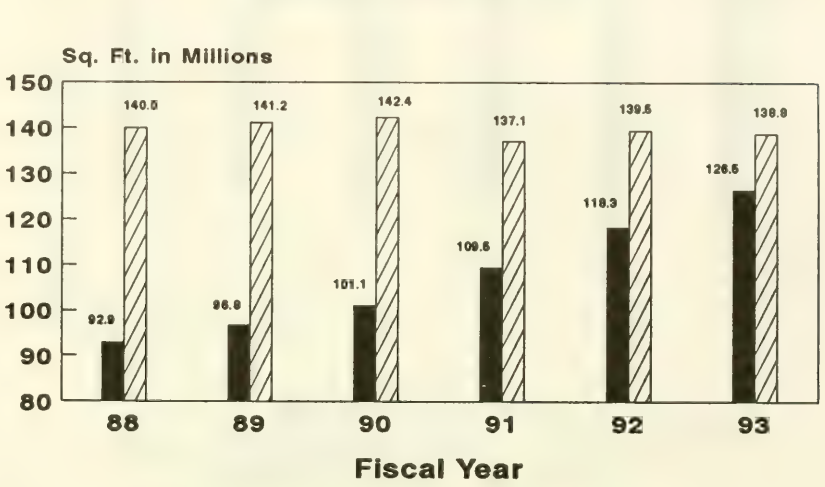
RENTAL OF SPACE

COST OF LEASED vs. GOV'T OWNED SPACE



RENTAL OF SPACE

INVENTORY OF LEASED vs. GOV'T OWNED SPACE



REAL PROPERTY OPERATIONS
(Dollars in Thousands)

DIGEST OF NEW OBLIGATIONAL AUTHORITY LEVELS

FY 1992 ACTUAL		FY 1993 ESTIMATE	
Work Years	Amount	Work Years	Amount
7,897	$1,105,190	7,889	$1,174,337

BACKGROUND

This activity provides for the operation of all Government-owned facilities under the jurisdiction of GSA, and building services in GSA leased space where the terms of the lease do not require the lessor to furnish such services.

Services included in building operations are cleaning, protection, maintenance, payments for utilities and fuels, and grounds maintenance. Other related supporting services include various real property management and staff support activities such as space acquisition and assignment; the moving of Federal agencies; on-site inspection of building services and operations accomplished by private contractors; and various highly-specialized contract administration support functions. The space, operations, and services referred to above are furnished by GSA to its tenant agencies in return for payment of RENT. Due to considerations unique to their operation, GSA also provides varying levels of above-standard services in some special facilities, such as the Pension Building, National Building Museum in Washington, DC and in certain agency headquarter facilities including those occupied by the Executive Office of the President, such as the East and West wings of the White House and the Old Executive Office Building.

GSA has implemented its Building Delegation Program in conjunction with the President's real property management initiatives. Under this program, GSA has delegated authority of Real Property Management functions (i.e., operations, minor repair, and lease management) to Federal agencies that are single tenants in selected Government-owned and leased buildings. GSA budgets within the Federal Buildings Fund for all buildings delegated under the provisions of GSA's standard delegation agreement. Each year, participating agencies receive funds from GSA to operate these buildings.

Exhibit 61-1 provides the cost and average occupiable square feet of Real Property Operations by major functions for delegated and non-delegated inventory.

Exhibit 61-1

REAL PROPERTY OPERATIONS
Key Workload Items
(Dollars and Square Feet in Thousand)

Category	FY 1992 Actual			FY 1993 Estimate		
NON-DELEGATED INVENTORY:	Obligations	Average Occupiable Square Feet	Unit Cost	Obligations	Average Occupiable Square Feet	Unit Cost
Cleaning	$191,648	155,905	1.23	$198,206	157,617	1.26
Utilities and Fuels	202,235	188,707	1.07	213,330	192,744	1.11
Maintenance	160,708	152,635	1.05	167,160	154,053	1.09
Other Building Services	137,945	209,080	0.66	158,453	209,134	0.76
Fire and Lifesafety	14,439			14,859		
Protection	71,256	266,186	0.27	74,964	267,732	0.28
Other Staff Support	112,001			116,959		
ADP	26,775			33,170		
Subtotal Non-Delegated Inventory	$917,007			$977,101		
DELEGATED INVENTORY:						
Cleaning	55,420	40,677	1.36	$58,181	39,894	1.46
Utilities and Fuels	82,777	45,039	1.84	86,407	44,833	1.93
Maintenance	36,352	40,203	0.90	38,474	39,758	0.97
Other Building Services	12,586	47,901	0.26	13,087	47,780	0.27
Protection	1,048	4,122	0.25	1,087	4,122	0.26
Subtotal Delegated Inventory	$188,183			$197,236		
TOTAL INVENTORY:						
Cleaning	$247,068	196,582	1.26	$256,387	197,511	1.30
Utilities and Fuels	285,012	233,746	1.22	299,737	237,577	1.26
Maintenance	197,060	192,838	1.02	205,634	193,811	1.06
Other Building Services	150,531	256,981	0.59	171,540	256,914	0.67
Fire and Lifesafety	14,439			14,859		
Protection	72,304	270,308	0.27	76,051	271,854	0.28
Other Staff Support	112,001			116,959		
ADP	26,775			33,170		
Total	$1,105,190			$1,174,337		

PROGRAM DIRECTION
(Dollars in Thousands)

DIGEST OF NEW OBLIGATIONAL AUTHORITY LEVELS

FY 1992 ACTUAL		FY 1993 ESTIMATE	
Work Years	Amount	Work Years	Amount
490	$137,748	490	$142,000

BACKGROUND

The Program Direction activity provides for the overall general management and administration of programs which are the responsibility of the General Services Administration's Public Buildings Service (PBS) at both the Central Office and Regional levels, including planning, development of policy, and program evaluation and control. It further provides for the costs of essential supporting services for those activities which are funded on a centralized basis, such as nationwide legal, financial, personnel, automated data processing services and other common distributable items.

REIMBURSABLE PROGRAM
(Dollars in Thousands)

FY 1992 ACTUAL		FY 1993 ESTIMATE	
Work Years	Amount	Work Years	Amount
540	$701,004	531	$645,852

BACKGROUND

GSA furnishes its tenant agencies with space and services commensurate with those commonly offered in the commercial sector. In return, agencies are charged RENT based upon the amount of GSA-controlled space that they occupy. When requested by a tenant, GSA will also provide, on a reimbursable basis, a full range of building services which exceed those standard or commercially-equivalent levels provided under the RENT charge. Such reimbursable services include: space adjustments; guarding and protection; utilities needed for above-standard levels of operations; janitorial and other services provided over the standard level; professional architect/engineer services related to other agency construction programs; interior design work requested by other agencies; and the cost associated with GSA's outleasing program for leased space. These reimbursable requirements often occur when occupant agencies must respond to cyclical workload and/or the agency's mission necessitates a multi-shift operation. GSA accommodates these requirements, as would a building owner in the private sector, by billing the tenant for an amount in addition to RENT to recover the added costs incurred in furnishing the supplemental service(s). In this way, one of the fundamental objectives of the Federal Buildings Fund is served: associating all costs of building space and services with the Government agency generating the requirement.

The reimbursable program allows GSA to be fully responsive to the special needs of Federal agencies, the public and other occupants in Government-owned and leased space under GSA control by furnishing a full range of reimbursable services in a prompt and expeditious manner.

Reimbursable staffing requirements are based primarily upon (1) the need to respond quickly to customer requests and (2) work where security is a primary consideration. Most reimbursable work is accomplished through use of private sector contracts.

II. INITIATIVES AND ISSUES

ISSUE: Asbestos Abatement Program

BACKGROUND: The General Services Administration has developed and implemented an aggressive asbestos identification, control, management and abatement program. Starting in the early 1980's, surveys were conducted to identify asbestos containing materials (ACM). These assessments included both visual inspections and bulk sampling of the ACM. It can be present in the form of insulating, fireproofing, and interior or exterior finish materials.

DISCUSSION: Once the location and condition of the ACM are known, appropriate measures are put in place to manage the materials or abate them, if required. Damaged or subject to damage ACM, or ACM being disturbed as the result of planned repairs and alterations, will be abated by enclosure, encapsulation, or removal.

Abatement work is funded by either prospectus or non-prospectus repair and alteration funds. ACM abatement is included in the project descriptions provided in the prospectuses and identified in the annual budget requests by line item project and as a lump sum for non-prospectuses work.

Obligations reported for the last fiscal year for this program were $62,216,400 in the non line-item area and $110,872,646 in the line item program.

ACTION REQUIRED: This program is ongoing and funding requirements will be met through the budget process or reprogramming of funds will be requested, if required.

ISSUE: Elimination of Ozone Depleting Refrigerants In GSA Facilities

BACKGROUND: The Clean Air Act amendments of 1990 (PL 101-549) establish a phaseout schedule and annual reduction percentages for the manufacturing of ozone-depleting refrigerants. The Act requires recycling of refrigerants, imposes restrictions on their emissions, and sets forth stringent controls over their use. In February 1992, the President announced the accelerated phaseout of the most adverse refrigerants. The phaseout of chlorofluorocarbon (CFC) is scheduled to be completed 5 years earlier than originally planned.

New replacement refrigerants cannot be efficiently used in much of GSA's existing equipment. GSA has adopted a proactive refrigerant management plan that will improve maintenance and operations; contain refrigerants in the air-conditioning equipment; and recover, recycle, and reclaim existing CFC refrigerants on or before the deadlines stipulated by the Act.

GSA's plan includes: designation of Facility Refrigerants Managers in each GSA region; improved maintenance and operations practices; and testing, containment, recycling, and disposal of refrigerants. Training and safety of personnel are key elements of the plan. Guidelines have been included to determine whether equipment should be repaired or replaced. Heavy reliance is made upon life-cycle costing principles. GSA will not acquire new chillers that utilize harmful CFCs.

Additional current initiatives include having environmentally friendly refrigerants readily available on FSS schedule, making arrangements for specific training programs for mechanics, and assuring that program managers are fully current about technological developments in the field. It is conceivable that future Environmental Protection Agency regulations or amendments to the Act will impose additional requirements on GSA.

The total cost of replacing GSA's obsolete equipment is estimated at approximately $700 million.

ISSUE: Energy Policy

DISCUSSION: The Energy Policy Act of 1992 (the Act) establishes numerous goals and requirements for all Federal agencies. Numerous requirements were assigned to GSA in recognition of GSA's leadership role in the field of Federal energy management. The Act requires Federal agencies to reduce energy consumption by twenty percent by the year 2000 from the year 1985. The law assigns to GSA several activities in water conservation.

In addition to specific responsibilities assigned to GSA, the Act requires the Secretary of Energy to consult with GSA in a number of regulatory and other program requirements.

II. INITIATIVES AND ISSUES (Continued)

GSA has established a policy to take advantage of rebate programs offered by many public utilities to customers who install new energy efficient systems and products. Potential rebates are considered in determining the economic benefit of proposed energy conservation projects. Current legislation permits deposit of rebates into the Federal Buildings Fund for use in further energy reduction initiatives.

ACTION REQUIRED: To accomplish the goal of a twenty percent reduction in energy consumption will require substantial capital investment to incorporate energy saving technologies in our facilities. GSA has budgeted $30 million in the Non-Line Item Repairs and Alterations budget activity for stand-alone energy conservation projects. In addition, as other projects are accomplished, those features which consume energy (i.e., lights, equipment, and windows) will be replaced or upgraded to use more energy efficient parts. Congressional approval of the GSA budget will allow continuation of these efforts.

Policies are being developed to identify water conservation projects with a ten-year payback which can be completed by the year 2005. Most of these will be of relatively small cost and will not appear as separate budget entries. As existing water-consuming devices are repaired, replaced, or upgraded, water reduction elements will be provided.

The Act also requires GSA to hold five intergovernmental energy management workshops annually. GSA must develop appropriate training courses, either by in-house or contract experts, which will be made available to state and local governmental entities. GSA will be the sponsor of these classes.

Coordination with the Secretary of Energy has already begun through the Federal Interagency Energy Management Task Force chaired by the Head of the Department of Energy's Federal Energy Management Program. GSA will report progress to five Congressional committees (Senate - Governmental Affairs, Energy and Natural Resources; House - Energy and Commerce, Government Operations, and Public Works and Transportation).

ISSUE: Contracting for Building Cleaning

DISCUSSION: Since 1983, GSA Appropriation Acts have contained language originally introduced by former Pennsylvania Congressman Edgar that prohibits GSA from contracting out the work performed by certain GSA employees employed as of November 14, 1983. This provision, referred to as the Edgar Amendment, protects principally custodian and guard positions.

The only exception to this provision is contracting with a sheltered workshop employing the severely handicapped, commonly known as NISH (National Institute for the Severely Handicapped). However, in numerous locations, sheltered workshops either do not exist or are not prepared to perform the custodial functions. In these cases, GSA has no alternative but to hire in-house staff to accomplish the work.

As a result of this provision, the desired goals of reducing employment, saving money, and providing a higher level of service are all postponed indefinitely.

ACTION REQUIRED: A change to the Federal Buildings Fund appropriation language would give GSA the flexibility to contract with the private sector when a NISH workcenter declines our offer to perform the services. At the expiration of any resulting contracts, the NISH workcenter would be offered the right of first refusal for succeeding contracts. Furthermore, GSA would ensure that any government employee displaced would be offered a position in the firm contracting for the services. GSA would, thus, be able to continue to provide a commercially equivalent level of building cleaning services to our tenants at lower cost.

ISSUE: Federal Recycling Program

DISCUSSION: The General Services Administration (GSA) has implemented a highly successful nationwide recycling program in over 700 GSA owned and leased buildings. During fiscal year 1992 over 500,000 Federal employees participated in the program. Nearly 36,000 tons of waste were recovered, an increase of 63 percent over the previous fiscal year, generating a cost avoidance of approximately $1.7 million in landfill costs. The sale of the recovered materials generated an additional $273,000.

Unfortunately, GSA and other collection systems throughout the country have been so successful that markets for the sales of recovered materials have been "flooded." Due to the lack of markets, many small recycling vendors are going out of business. Unless markets for recovered materials are quickly developed, GSA's nationwide recycling program will be severely hindered.

II. INITIATIVES AND ISSUES

ACTION REQUIRED: GSA should promote the procurement concept through publications and conferences and by working closely with the OMB Federal Recycling and Procurement Policy Council. GSA should exert leadership by using recycled paper to the maximum extent possible. The Public Buildings Service should continue to emphasize the use of recycled content materials in new construction, renovation, and alterations. In addition, the existing recycling program should be expanded in Government-owned and leased space to recycle more materials, e.g., city telephone books, lawn clippings, etc.

THURSDAY, FEBRUARY 18, 1993.

FEDERAL SUPPLY SERVICE

WITNESSES

ROGER D. DANIERO, COMMISSIONER
FRANK P. PUGLIESE, JR., DEPUTY COMMISSIONER
LEONARD YONKLER, CONTROLLER
JOHN B. CONRAD, DIRECTOR, BUDGET AND FINANCIAL MANAGEMENT DIVISION
WILLIAM EARLY, ACTING CHIEF FINANCIAL OFFICER

INTRODUCTION

Mr. HOYER. Today we are going to hear from the Federal Supply Service. We very much appreciate you being here. What we are trying to do is an overview to see some of the problems that we will confront when we get the budget as it relates to some of the problems that you may have in particular. How do you pronounce your name?

Mr. DANIERO. Daniero.

Mr. HOYER. We are very pleased to have you here as well as Mr. Early who is an old friend of the Committee. He visits with us all the time and watches us. Mr. Lightfoot, do you want to make any opening comment?

Mr. LIGHTFOOT. I would just like to welcome the witnesses. As we are trying to streamline government, what we hear today is certainly going to help us make some of those decisions. I appreciate you gentlemen coming this morning.

Mr. HOYER. I would reiterate what I said at the opening consistent with Mr. Lightfoot's comments. We have a new challenge in government. Whether it is reinventing the government or simply making it work better, we are going to have to do these kinds of things. This Committee is going to try to work with all of the agencies with whom we do business, for whose budgets we have responsibility, to implement the 3 percent administrative cuts which the President has said he is going to put across the breadth of the Federal government. Speaker Foley and Majority Leader Mitchell have indicated we will implement it here in the Congress.

It will be a challenge for us because the challenge will be to effectively do more with less. I think a lot of our folks feel they have been doing it through the years, but I think the President's speech last night made it very clear that he is committed to that and the Congress is committed to that. I know it can be done and we will try to do it in the most positive way possible so that we do not adversely affect your ability to deliver the services that the President, Congress, you and the people expect.

Summary Statement of Mr. Daniero

Mr. Daniero. Mr. Chairman, Members of the Subcommittee, we appreciate the opportunity to meet with the Subcommittee to discuss our fiscal year 1993 budget. I am accompanied by Mr. Frank Pugliese, Jr., Deputy Commissioner, Mr. Leonard Yonkler, Controller, Mr. John B. Conrad, Director of Budget and Financial Management Division. The FSS' mission is to provide, in a timely manner, the goods and services needed by Federal departments and agencies at a quality level to assure successful completion of their missions, all at least cost to the taxpayer. This is accomplished through a program for developing, implementing and managing governmentwide regulations and policies relating to travel, mail, transportation and property management; a worldwide logistics supply system to contract for and distribute supplies and personal property to Federal agencies and other authorized users, and transportation and travel management services program which includes transportation audits, the Federal fleet management system, mail management and aircraft management and a governmentwide program for utilization, donation and sale of excess and surplus personal property.

Our 1993 direct appropriation of $56.144 million supports schedules, contracting, transportation, mail and travel management, aircraft management, transportation audits, worldwide utilization, donation and sale of excess personal property, regulatory and policy activities. The supply operations area of FSS which includes the wholesale, retail, direct delivery and special orders programs, along with the fleet management operation, are funded through customer agency reimbursements to the General Supply Fund. The obligational levels are $722.747 million for the fleet management operation and $2,156,762,000 for the supply operation program. No year funding of $700,000 is also provided for damages caused by Hurricane Andrew, primarily to vehicles.

I would now like to summarize some of the continuing benefits accruing to Federal agencies as a result of FSS programs during fiscal year 1992.

The FSS Stock and Special Order program provided support to Federal agencies for over 99,000 items ranging from automobiles, trucks, furniture and appliances to paper clips, pens, pencils and paper. Over 22,000 contracts were awarded and total sales exceeded $2.2 billion. The FSS central supply support mission saves agencies not only procurement dollars by using the consolidated volume buying power of the government, but significant administrative costs of multiple individual agency procurements. For example, FSS consistently purchases passenger vehicles at approximately 20 to 25 percent below dealer cost on consolidated buys coordinated with the most advantageous industry production cycles.

The Federal Supply Schedules program, which consisted of over 5,000 contracts with sales of $2.6 billion in fiscal year 1992, provides agencies with additional economic sources of supply. These contracts, negotiated with multiple firms, provide volume discounts to government agencies in recognition of the aggregate buying power of Federal customers.

A by-product benefit of our supply and schedule procurement programs is the dollars awarded to small businesses, $1,412,000,000, blind and severely handicapped, $173.9 million, and Federal Prison Industries, $49.6 million.

In the property management area, FSS transferred approximately $1,066,900,000 of excess property for further utilization among Federal agencies, donated $603.7 million to States for the benefit of State and local communities and institutions, realized $156.29 million in the sale of surplus property, and transferred $22 thousand in seized and forfeited property to other Federal agencies.

One of our most significant achievements concluded during fiscal year 1992 was the distribution of over $270 million in excess food and related items from Operation Desert Storm, known as Operation Desert Share, to all levels of government and private institutions serving the needy.

We are also extremely pleased with our success in achieving significant savings for the government in the travel and transportation areas. For example, airline/rail city-pair contracts provide unrestricted government travel discounts averaging 58 percent off coach fares resulting in cost avoidance of over $1 billion.

In addition, the Government Travel Card and Travelers Check program, which had over 850,000 cards issued and usage of over $1.5 billion, produced drastic reductions in Federal agency imprest fund operations and outstanding travel advances at no fees to either the government or the Federal employee.

Also, the Hotel/Motel program lists over 4,200 properties offering discount lodging rates for Federal travelers at an average of 35 percent below commercial rates. Since the government normally only reimburses travelers for actual lodging costs within a maximum per diem rate, significant cost avoidance is facilitated by this program as well.

In addition the centrally awarded small package overnight express contract provides the government with a rate of $3.99 per pound versus a commercial rate of $15.50. With volume of business during fiscal year 1992 of $39 million, again, significant cost avoidance is achieved through this high volume leveraged contract.

Numerous additional programs, such as transportation of freight and household goods, employee relocation contracts, and transportation audits, both pre- and post-payment, have significant economic benefit to the government at large.

In the area of fleet services, the Federal Supply Service Interagency Fleet Management System, consisting of approximately 134,000 vehicles, continues to provide agencies a more cost effective alternative to commercial leasing or individual agency ownership and operation. Typical IFMS rates for a compact sedan are $136 a month and 10.5 cents per mile, which has consistently been shown to be significantly lower than individual agency operations during FSS' consolidation studies and commercial fleet alternatives via competitions conducted under Consolidated Omnibus Budget Reconciliation Act procedures, known as COBRA. FSS concluded the consolidation of over 41,000 Department of the Army nontactical vehicles into the IFMS during fiscal year 1992, with an estimated total cost reduction to the Army of approximately $33.9 million since fiscal year 1986.

In addition, the IFMS, which is widely credited for the introduction of numerous passenger safety features, most notably the air bag, continues to use its power in the marketplace to pursue safety, energy and air quality initiatives. During fiscal year 1992, the FSS IFMS purchased approximately 3,000 alternative fuel vehicles from original equipment manufacturers in cooperation with the Department of Energy to encourage increased production of methanol, ethanol, natural gas, propane or other fuels offering the potential for less dependence on foreign petroleum imports and cleaner emissions. FSS is in compliance with the Alternative Motor Fuels Act of 1988 and the Clean Air Act Amendments of 1990, as well as Executive Order 12759, in implementation of this program.

In conclusion, during fiscal year 1992, FSS continued to perform a significant role as a central provider of products and services whenever it was demonstrated that significant savings could be achieved by consolidating and leveraging the Federal Government's buying power or eliminating duplication of effort among Federal agencies. During fiscal year 1993, we have a number of initiatives aimed at maintaining, increasing and adding to these previous successes.

At the initiative of organizations not required to use FSS, we will be expanding support to the U.S. Postal Service, American Red Cross, Resolution Trust Corporation, and the Defense Commissionary Agency that results in significant economies for these organizations while simultaneously contributing volume to FSS which can further our achievements of economy of scale.

We will continue to increase awareness of, and opportunities for, contributions which can be made regarding our Nation's environment. In addition to alternative fuel vehicles, we will continue our efforts to expand the over 2,100 environmentally sensitive products highlighted in the GSA supply catalog and encourage industry production and Federal agency use of such environmentally superior products.

We will also continue to expand upon the initiatives set forth in fiscal year 1992 in the relatively new responsibilities for FSS concerning aircraft and mail management. We have upgraded our organization to include an aircraft management division and are steadily attempting to infuse additional resources into this effort. A comprehensive Federal aviation plan has been prepared to address aircraft safety, acquisition, use and disposal, automated data systems and regulatory policy.

Now I would like to discuss a legislative initiative that we are undertaking this fiscal year.

The technology now exists to audit transportation bills prior to payment as GSA has shown with its prepayment audit contracts. In order to facilitate the movement of government agencies from a post-payment environment, a legislative package has been prepared to change the applicable laws by directing agencies to perform or have performed verification for correctness of transportation charges. Over the next several years, GSA will phase out its post-payment audit activities. GSA will continue oversight of the audit

of transportation bills and continue to adjudicate claims between carriers and agencies. This package is currently in the internal agency clearance process.

We will be pleased to discuss any aspects of our programs that are of interest to the Subcommittee.

[The statement follows:]

Statement By Mr. Roger D. Daniero
Commissioner, Federal Supply Service, GSA
Before The Subcommittee on
Treasury, Postal Service, and General Government
of The House Committee on Appropriations

Mr. Chairman and Members of the Subcommittee:

We appreciate the opportunity to meet with the Subcommittee to discuss our fiscal year 1993 budget. I am accompanied by Mr. Frank P. Pugliese, Jr., Deputy Commissioner, Mr. Leonard Yonkler, Controller, and Mr. John B. Conrad, Director, Budget and Financial Management Division.

The FSS mission is to provide in a timely manner the goods and services needed by Federal departments and agencies, at a quality level to assure successful completion of their missions, all at least cost to the taxpayer. This is accomplished through a program for developing, implementing, and managing Governmentwide regulations and policies relating to travel, mail, transportation, and property management; a worldwide logistics supply system to contract for and distribute supplies and personal property to Federal agencies and other authorized users; a transportation and travel management services program which includes transportation audits, the Federal fleet management system, mail management, and aircraft management; and a Governmentwide program for utilization, donation and sale of excess and surplus personal property.

Our 1993 direct appropriation of $56,144,000 supports schedules contracting, transportation, mail and travel management, aircraft management; transportation audits; worldwide utilization, donation and sale of excess personal property; regulatory; and policy activities. The supply operations area of FSS which includes the wholesale, retail, direct delivery, and special orders programs, along with the fleet management operation, are funded through customer agency reimbursements to the General Supply Fund. The obligational levels are $722,747,000 for the fleet management operation, and $2,156,762,000 for the supply operation program. No year funding of $700,000 is also provided for damages caused by Hurricane Andrew.

I would now like to summarize some of the continuing benefits accruing to Federal agencies as a result of FSS programs during fiscal year 1992.

The FSS Stock and Special Order program provided support to Federal agencies for over 99,000 items ranging from automobiles, trucks, furniture and appliances to paper clips, pens, pencils and paper. Over 2,000 contracts were awarded and total sales exceeded $2.2 billion. The FSS central supply support mission saves agencies not only procurement dollars by using the consolidated volume buying power of the Government, but significant administrative costs of multiple individual agency procurements. For example, FSS consistently purchases passenger

vehicles at approximately 20-25% below dealer cost on consolidated buys coordinated with the most advantageous industry production cycles.

The Federal Supply Schedules program which consisted of over 5,000 contracts with sales of $2.6 billion in fiscal year 1992 provides agencies with additional economic sources of supply. These contracts, negotiated with multiple firms, provide volume discounts to Government agencies in recognition of the aggregate buying power of Federal customers.

A by-product benefit of our supply and schedule procurement programs is the dollars awarded to small businesses $1,412 million, Blind and Severely Handicapped $173.9 million, and Federal Prison Industries $49.6 million.

In the Property Management area, FSS transferred approximately $1,066.9 million of excess property for further utilization among Federal agencies, donated $603.7 million to States for the benefit of State and local communities and institutions, realized $156.29 million in the sale of surplus property, and transferred $22,000,000 in seized and forfeited property to other Federal agencies. One of our most significant achievements concluded during fiscal year 1992 was the distribution of over $270 million in excess food and related items from Operation Desert Storm, known as Operation Desert Share, to all levels of Government and private institutions serving the needy.

We are also extremely pleased with our success in achieving significant savings for the Government in the travel and transportation areas. Some of the most notable include:

- Airline/rail city-pair contracts which provide unrestricted Government travel discounts averaging 58% off coach fares resulting in cost avoidance of over $1 billion.
- The Government Travel Card and Travelers Check program, which had over 850,000 cards issued and usage of over $1.5 billion, produced drastic reductions in Federal agency imprest fund operations and outstanding travel advances at no fees to either the Government or the Federal employee.
- The Hotel/Motel program which lists over 4,200 properties offering discount lodging rates for Federal travelers at an average of 35% below commercial rack rates. Since the Government normally only reimburses travelers for actual lodging costs within a maximum per diem rate (also estimated annually by FSS), significant cost avoidance is facilitated by this program as well.
- The centrally awarded small package overnight express contract provides the Government with a rate of $3.99 per pound versus a commercial rate of $15.50. With volume of business during fiscal year 1992 of $39 million, again significant cost avoidance is achieved through this high volume leveraged contract.

- Numerous additional programs, such as transportation of freight and household goods, employee relocation contracts, and transportation audits, both pre and post payment, have significant economic benefit to the Government at-large.

In the area of fleet services, the FSS Interagency Fleet Management System (IFMS), consisting of approximately 134,000 vehicles, continues to provide agencies a more cost effective alternative to commercial leasing or individual agency ownership and operation. Typical IFMS rates for a compact sedan are $136.00 per month and 10.5 cents per mile which has consistently been shown to be significantly lower than individual agency operations during FSS' consolidation studies and commercial fleet alternatives via competitions conducted under Consolidated Omnibus Budget Reconciliation Act (COBRA) procedures. FSS concluded the consolidation of over 41,000 Department of the Army non-tactical vehicles into the IFMS during fiscal year 1992 with an estimated total cost reduction to the Army of approximately $33.9 million since fiscal year 1986. In addition, the IFMS which is widely credited for the introduction of numerous passenger safety features, most notable the air bag, continues to use its power in the marketplace to pursue safety, energy and air quality initiatives. During fiscal year 1992 the FSS IFMS purchased approximately 3,000 alternative fuel vehicles from Original Equipment Manufacturers (OEM's) in cooperation with the

Department of Energy to encourage increased production of methanol, ethanol, natural gas, propane or other fuels offering the potential for less dependence on foreign petroleum imports and cleaner emissions. FSS is in compliance with the Alternative Motor Fuels Act of 1988 and the Clean Air Act Amendments of 1990 as well as Executive Order 12759 in implementation of this program.

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ECONOMIC STIMULUS PACKAGE

Mr. HOYER. Let me go to some of the things that were pledged in the President's—if not mentioned in the President's speech, at least included in his program. The President's investment package included, as I understand it, $28 million for the purchase of alternative fuel vehicles. Are you familiar with this additional initiative?

Mr. DANIERO. I became aware of it last night and this morning, yes.

Mr. HOYER. It also includes $28 million with a request for the Department of Energy. However, the FSS is, as I understand it, responsible for the purchase of nonstrategic government vehicles. What is your role in the acquisition of these vehicles?

Mr. DANIERO. The Federal Supply Service has as one of its commodity centers the automotive commodity center and by and large the automotive commodity center buys the vast majority of vehicles for the Federal Government that are of a nontactical nature. This includes passenger vehicles, light trucks, medium trucks, heavy trucks, fire trucks, buses, ambulances, et cetera.

The automotive center buys for our own interagency fleet management program, also buys for other Federal agencies, issues standards for standard type vehicles, and makes an attempt to have agencies consolidate and buy the same types of vehicles so that we can combine and leverage our advantage in the marketplace.

Mr. HOYER. In that context, will the $28 million be appropriated to you or to the Department of Energy?

Mr. DANIERO. We expect it will be appropriated to the Department of Energy and that they will use those funds to have all agencies of the government buy alternative fuel vehicles. GSA has about one-third of the government fleet. Postal Service and DOD have the majority of the other two-thirds. So I would expect that DOE will work with all three of us as well as several agencies who run their own independent fleet, like the Department of Agriculture, which has a fleet of about 40,000 vehicle.

Mr. HOYER. Department of Agriculture?

Mr. DANIERO. Yes.

Mr. HOYER. You said one-third for DOD, one-third with yourselves.

Mr. DANIERO. And the other third with the Postal Service. There is also a mixture of other agencies that have some vehicles, like Agriculture, but the big three are——

Mr. HOYER. Presumably one of those three has a little less than one-third?

Mr. DANIERO. Right.

Mr. HOYER. Well, we are concerned about that in terms of what we want to have in our own allocation.

Mr. DANIERO. We usually expect that about one-half of the vehicles that Energy would be funding would be vehicles that we would purchase for the IFMS fleet, and they would spread the other half among the other agencies.

Mr. HOYER. How many vehicles will $28 million purchase, approximately?

Mr. DANIERO. Well, we are talking incremental costs, basically. The way we work with Energy is that in the normal cycle of buying vehicles, if a vehicle costs us, let's say, approximately $7,000 for a new compact sedan, and if as an alternate fuel vehicle costing $8,000, operating on methanol fuel, flexible fuel, or on either methanol or gasoline, DOE would provide us the $1,000 difference between the cost of the standard versus the alternate fuel vehicle.

In the natural gas area, however, the cost differential is about $8,000 or $9,000 per vehicle because the industry does not yet produce enough of those vehicles to bring the cost down.

Mr. HOYER. That would be $20,000 a vehicle, $16,000 a vehicle.

Mr. DANIERO. Depends upon the type of vehicle. If it is alternate—methanol, for example, $1,000 per vehicle would get us a lot of vehicles.

Mr. HOYER. So the $28 million will buy you different numbers depending upon what the mix is.

Mr. DANIERO. What the mix is, and/or if it is retrofit. We have looked at retrofit. I think DOE is looking at some retrofitting but we don't know how far along they are on that.

ALTERNATIVE FUEL VEHICLES

Mr. HOYER. Do you have a contract in place now for alternative fuel vehicles?

Mr. DANIERO. Yes, and we are having them delivered this fiscal year. The majority of them are from Chrysler, coming out of a plant in Delaware. It is a production line vehicle and it uses methanol gasoline.

Mr. HOYER. Would you just add to the existing contracts? In other words, the $28 million to the extent it buys you extra vehicles, are you adding to those contracts that exist now or would you be entering into new contracts?

Mr. DANIERO. They would be new contracts.

Mr. HOYER. If they are new contracts, how quickly can the purchases be made? Obviously one of the intents that the President has, and I know Mr. Panetta has, is to make the money available as soon as possible, short-term stimulus—get jobs created in the short term. How soon can we do that?

Mr. DANIERO. There is a procurement we have right now that hasn't been awarded, which possibly could be impacted by this. I have to check on that when I go back. The contract has a minimum of 2,500 vehicles. It is possible that we might reconsider those 2,500 vehicles, for example, and then as we go forward, we will have additional requirements to support the IFMS.

Mr. HOYER. Let me follow up on that. If you have a contract now, you are saying for 2,500 vehicles, and that contract has been awarded or——

Mr. DANIERO. It has not been awarded as we speak, as far as I know.

Mr. HOYER. But now if we convert that with this $28 million just to buy additional capabilities in those cars for alternative fuel utilization, we may or may not have the economic stimulus impact that the President wants to have, is that correct?

Mr. DANIERO. That is correct.

Mr. HOYER. If you are going to have the same number of people employed as opposed to hiring workers to produce 2,500 additional vehicles—I don't know how much $28 million buys you. I am not looking to make work or spend extra money, but the whole purpose of the short-term stimulus package is to get people to work at jobs, not necessarily to recycle the money to make your budget better.

Mr. DANIERO. Our plan, if we got these funds, was to purchase up to about 10,000 alternative fuel vehicles during the 1994 model year.

Mr. HOYER. When you say that is your intention, the 2,500 vehicles that currently you have ready to bid, or let out to bid, I guess——

Mr. DANIERO. They have already been bid. I am very doubtful we can do anything about those because it has already been bid.

Mr. HOYER. My point would be, you may not want to do something with those if you are going to—if you are trying to get a stimulus and invest in new jobs.

Mr. DANIERO. Right.

Mr. HOYER. What role did the Federal Supply Service play, if any, in the new economic investment package?

Mr. DANIERO. We submitted several proposals along these lines. We submitted a proposal to retrofit existing vehicles to run on alternative fuels. We submitted a proposal to purchase new vehicles for the government to replace older vehicles in the inventory with alternative fuel vehicles, and we also submitted a suggestion on infrastructure, I believe, to spur on the creation of fueling capacity across the country. So we think that this is in somewhat of a response to some of that initiative.

ALTERNATE FUELS

Mr. HOYER. Mr. Lightfoot.

Mr. LIGHTFOOT. Thank you, Mr. Chairman. The whole idea of alternative fuels is something I think—at least I know I support very strongly because of a lot of reasons. I would like to have you go home and practice the word ethanol instead of methanol.

Mr. DANIERO. We are buying methanol.

Mr. LIGHTFOOT. As we do move toward these alternative fuels, maybe tagging on with what the Chairman already had to say, I would think that as we get into more vehicles burning the alternative fuels, you talk about jobs stimulus, it won't necessarily be in the government. It will be in those industries that provide the ethanol, that grow the grain, and the manufacturing that supply the kits and so on that convert the vehicles, so I think that really achieves two things: we clean up the air and we put some more people to work at the same time.

Mr. DANIERO. And have less dependence on foreign oil.

Mr. LIGHTFOOT. And breaks that cycle which we certainly need to do. When you go out to let a bid on—let's stay with cars, or vehicles, are there any requirements that Congress puts on you that for special equipment, or that sort of thing, that could drive the cost up that maybe in the real world isn't necessarily that productive to do, or are you pretty much left to pick the units to fit the job they are supposed to fit?

Mr. DANIERO. We basically develop our own standards. We are fairly free to develop the standards that we use to buy the vehicles, especially dealing with the equipment that is on them, the safety features and so forth.

PURCHASE OF SUPPLIES

Mr. LIGHTFOOT. Shifting off vehicles for a minute, you mentioned in your statement all the supplies from paper clips to whatever, is that all purchased through the competitive bid process? Could you walk us through a quick scenario of how you go about doing that?

Mr. DANIERO. Our program is split about 50/50. We have three major programs. We have a Federal supply schedules program, which is worth about $2.5 billion. We negotiate contracts with multiple commercial firms for their commercial lines of products, no government specifications, just a commercially available product, and this is——

Mr. LIGHTFOOT. Paper and that sort of thing.

Mr. DANIERO. This is mostly equipment, what we consider nonconsumable durable items. It is difficult to write specifications, difficult to know what every agency needs or wants with items such as scientific equipment and copying machines, where the technology changes rapidly. Public Health Service needs all kinds of special equipment, and so forth.

We negotiate deep discounts with vendors in order for them to get on these schedules so agencies have access to this kind of equipment. It is a direct order from the agency to the vendor and a direct shipment from the vendor to the agency. We have another $2 to $2.5 billion worth of supplies that are either in our stock program or our special order program. These are by and large competitive contracts. Automobiles are on that side, considered part of our special order. Special order means we don't stock it. If you want furniture, automobiles, those kinds of things, we have contracts in place that we have awarded competitively. They are requirements type contracts.

Agencies submit their requisitions to us. Our computer automatically generates purchase orders that go to the vendor. It is basically transmitted electronically or by fax to the vendor. He fills the order. He bills us, we bill the agencies. We do that in order to capture the volume and the leverage to buy that way. Appliances, we buy those that way, et cetera.

And our stock program is generally consumable items, paper, paper clips, pins, paint, all those kinds—tools. They are things that people usually use and replace on a regular basis.

Mr. LIGHTFOOT. Pardon my ignorance, but as far as the vendors that we buy from for our offices, are they under GSA or do you establish those contracts; people who we buy our computers and, software.

Mr. DANIERO. You are not required to use us, but I think you do in a lot of instances.

Mr. EARLY. We provide the administrative support for your district offices and since we are your agent for that, we provide the supplies from the Federal Supply Service.

Mr. LIGHTFOOT. The only reason I ask is, we got a computer in the office here a couple of years ago, a portable computer, and the vendor had the software at $300 and some odd dollars, and I could walk downtown anywhere and buy it for about $150, and I thought there wasn't much economy of scale there, at least for us. It was good for Falcon but it didn't do a whole lot for us. With regard to—back to the Chairman's line on alternative fuels and so on, do you sense that there is a commitment amongst the agencies to do more of the alternative fuel buying and to pursue that line of purchase in the years to come, or are they hard to bring along? What is your sense on that?

Mr. DANIERO. I think there is a general commitment. I think it is—we recognize, and the agencies recognize the good that can come of that. I know the Federal Supply Service, GSA, have been very aggressive pursuing alternative fuel vehicles. We feel very strongly that we can lead the industry. We think we proved that in the air bag area. When we went out and bought 5,000 vehicles at once, we think that really started the impetus going forward.

So as we begin to create a market for these manufacturers. They are having some problems by the way, but they correct them and they work on them because the first 65 vehicles that we bought we had some problems. Some of the fuel filters were clogging and some of the parts that they were using were plastic and the methanol, the alcohol, was affecting them. They found little bugs, but they were able to work with us and work them out. I think it was significant when Chrysler bid 2,500 vehicles to us last year on a production line at basically the same price as a gasoline-powered vehicle. That is the kind of thing that happens.

DESERT STORM INVENTORY

Mr. LIGHTFOOT. Good. And you can submit this for the record, you may not have it offhand, but I think last year you said there was something like $6 or $7 million in excess inventory as a result of Desert Storm, and disposing of that equipment and so on. Could you give us an update as to where you are with that.

Mr. DANIERO. Well, I don't refer to it as an excess so much as long supply. We are moving it. It is starting to come down. Certainly, like everybody, we didn't expect the war to be over as fast as it was, nor did the Department of Defense, and we were getting orders fast and furious, sandbags. We were buying sandbags all over the world, wherever we could find them. We had taxed the capacity, for example, in this country and even in Holland and places like that, and we had sandbags just coming in by the truck loads.

TAC fire paper which was a very critical part of the weapon systems that they were using for the artillery and the missile launcher and so forth. They were getting that TAC fire paper from us. They were getting the camouflage paint that they were using in the desert from us. They got the paint that they were using to paint circles on the tops of the vehicles to know friendly versus foe because it was detectable by their night vision equipment, and we built up entrenching tools that every foot soldier carries.

We built up a heck of a supply. The war ended and so we had a long supply, but it is coming down. A typical example is the food. I

mean, we had more food than they knew what to do with. I think we did a fantastic job in getting that food back over here, distributed through private organizations like Second Harvest to the homeless organizations, to food banks, all over the country.

So I don't think that we will—it is a long supply, but I don't believe that we will be excessing it.

Mr. LIGHTFOOT. With those things coming back, you got vehicles in this inventory too?

Mr. DANIERO. No, vehicles we do not inventory. We have contracts in our special order program where we order the vehicles and then they are delivered in phases direct to us and then to our customers.

Mr. LIGHTFOOT. I just ran across a situation this past week where DOD is sending 21 O–2 aircraft to Botswana for some purposes at a cost of $300,000 per airplane to the American taxpayer and you go buy one of those things on the market for about $35,000, but that doesn't make any sense at all. That is not in your division, I guess.

In your testimony you talk about Federal prison acquisitions, $49 million or a figure somewhere in that neighborhood. What kind of things do you buy from the Federal Prison System?

Mr. DANIERO. Furniture is an item that we buy from them that they manufacture for us, shelving and things like that. I can give you a list of the items. They are big in furniture for one thing.

Mr. LIGHTFOOT. Thank you very much.

[GSA submitted the following additional information:]

TYPES OF ITEMS PURCHASED FROM FEDERAL PRISON INDUSTRIES

Industrial Goggles, Spectacles, Face Shields and Lenses
Casters
Power Cable Assemblies
Light Extensions
Blankets, Towels, Napkins, Tablecloths, Sheets, Washcloths
Waste Receptacles
Typewriter Brushes
Wall Calendar Boards
Desk Tray Sets
Nameplate Holders
Columnar Pads
Graph Paper
Brushes: Scrubbing, Dusting, Window, Paint/Varnish, Artist, Stencil
Brooms
Bags: Ordnance, Textile, Sand
Terry Cloth
Dropcloths
Tarpaulins
Gloves
Signs
Card Label Holders
Systems Furniture
Draperies
Dormitory Furniture
Office Furniture (Wood and Metal)
Upholstered Furniture

LEASED VEHICLES

Mr. EARLY. Mr. Lightfoot, you had earlier asked a question about special requirements different than what the private sector may have. Our old friend scoring that we talked about Tuesday affects

the Federal Supply Service also in that a lot of the vehicles Federal Supply has, they are leasing today. If they didn't have the budget overlay, like the private sector doesn't have, we would be able to use the cash flow in making those vehicles available to customers and using the cash to buy the vehicles. We are leasing those vehicles today, and as we modify the leases to meet the new scoring requirements, we had to change the way the leasing contracts were put together last year. It was viewed that our previous leases were capital leases instead of operating leases. We had to modify them to put a greater financial risk on the private sector. Last year that caused the price to be high.

Mr. LIGHTFOOT. What percentage of the fleet out there, is leased?

Mr. DANIERO. 30,000 of the vehicles.

Mr. HOYER. 30,000 out of what number?

Mr. DANIERO. About 134,000.

Mr. HOYER. So about 20 percent.

Mr. DANIERO. As Bill said, the second year we have had a little bit better success with the operating lease and I think the differential perhaps is maybe 3 percent versus originally 7 or 8 percent or higher in terms of operating lease versus a capital lease. This committee a couple of years ago gave us authority to have to score only the annual cost of the lease on the multi-year lease each year, but when the Budget Enforcement Act was passed, it overrode that authority so we couldn't score annually anymore. So we have to score the entire value of the capital lease up front in the year we make the lease, which makes it difficult.

PURCHASE VERSUS LEASE

Mr. LIGHTFOOT. Since you opened this up, if I could, Mr. Chairman.

Mr. HOYER. Sure.

Mr. LIGHTFOOT. I think that one of the things you were concerned with the other day, as I am, is how we are getting the most bang for our buck so to speak. It would be interesting if we could see some figures on the outright cash purchase as opposed to the lease, much as they showed us the example on the building, where you are talking a shorter term lease on a piece of equipment that is going to wear out in three or four years. That may be an entirely different situation than looking at a building that is going to be there for 40 years.

We had roughly an $80 million example of cash up front or $180 million if we financed it for 20 years, something in that neighborhood. I would like to see some numbers on the cost effectiveness of lease as opposed to purchase because we are dealing with a different commodity here than a building.

Mr. DANIERO. And purchase is definitely the most advantageous way. We are the only entity—the government is the only entity that can buy direct from a manufacturer rather than a dealer, and as I said in my testimony, our prices for new vehicles are actually about 20 to 25 percent below the dealer's cost of purchasing that vehicle.

Mr. LIGHTFOOT. When you sell that vehicle, are you allowed to score that back against the expense or not?

Mr. EARLY. It is a replacement, and so we are able to offset that. The problem is, we cannot, for scoring purposes, anticipate the sales proceeds until it actually occurs. So we consume a budgetary resource until we make the sale to offset it, so it is not netted out to start with. It is a gross and then we offset it for an actual operating aspect, like the private sector. Because in scoring, we do a gross, then after it occurs, we can net it. We can't net it on the front end.

Mr. YONKLER. The fund is not capitalized for total acquisition through purchase of all the vehicles that we need, so our alternatives are to go to lease. Prior to the Budget Enforcement Act, we went to capital leasing and the cost of capital leasing was considerably less than the cost of operating leases which scoring rules now require that we enter into.

Mr. HOYER. Go over that again for me. That may be helpful. Go over again the distinction, because you said it is more expensive when you go from an operating to a capital lease because there is greater risk to the manufacturer in trying to sell it, the lessor I suppose in this case.

Mr. YONKLER. There are a number of conditions in order to meet the criteria of an operating lease. The one that affects us the most, is that the liability third-party acts stays with the vendor. When you go into a capital lease, the liability for the vehicle in terms of third-party accidents remains with the government. Risk remaining with the vendor is one of the conditions in order to make it an operating lease.

When the industry offers leases, liability for accidents——

Mr. HOYER. If it is an operating lease, the risk is with the vendor or the other way around?

Mr. YONKLER. With the vendor, and that was the one issue that gave us the biggest problem, because the leasing community, the manufacturers, when they lease vehicles, liability passes to the lessee—from the lessor to the lessee. Under the terms of OMB Circular 91–02 and the Budget Enforcement Act, in order to meet the terms of an operating lease, the vendor has to retain the third-party liability.

The other thing is, operating leases have to be annual leases that have to be renewed as opposed to multiyear. So you are paying in addition for a certain amount of risk in case the government doesn't renew at the end of each of the years of the lease period.

In our case, we only lease passenger-type vehicles so the lease would be for 3 years. In the first year that we were required to do this, which was fiscal year 1992, the differential was 6.8 percent. The price of the vehicle remains the same under an operating lease or under a purchase acquisition. Let's say that was $7,000. At the time we made award, the Treasury rate was approximately 4.6 percent for the Treasury to borrow money. Our first lease payment was 11.4 percent. So the differential was attributable to the cost of having an operating lease and we also had a very limited competition because nobody was sure—as I say, this was a new way for the industry to do business.

In our second year, which is the current year, that differential dropped to something like 2.5 percent.

Mr. HOYER. So from 7 plus percent down to 2.5 percent.

Mr. YONKLER. 2.5 I believe is the number.

Mr. DANIERO. I think the industry got a little more comfortable——

Mr. HOYER. Excuse me, Mr. Lightfoot.

REPLACEMENT CRITERIA

Mr. LIGHTFOOT. That is fine. I appreciate it. I am taking more time than I intended to but this is an interesting subject. One other question and I will get off of this and yield back. On the leases and/or purchase, as far as your criteria for when that vehicle is replaced, is that based on an age issue? Is it based on mileage or a combination of the two? How do you determine when you are going to get rid of a vehicle and replace it?

Mr. DANIERO. Right now we are basically operating off of a three-year replacement cycle or 60,000 miles, whichever comes first. We used to have a six-year, 60,000 mile cycle. We went through various studies. We worked with GAO, OMB, looking at different cycles. We looked at what the private sector does and so forth and we looked at what we could resale the vehicles for.

We generally do pretty well in our vehicle auctions, and the warranties became a major factor because normally we could get warranties for the full three-year period, driving our maintenance and repair costs down. We got out of motor pools completely. Where we used to have in-house motor pools, we have zero today. So the three-year cycles seem to be the best for us.

LEASING VERSUS OWNERSHIP

Mr. LIGHTFOOT. Mr. Chairman, thank you very much. I think just as a final comment; we are looking at the lease and the purchase where you have equity in these purchased vehicles. I don't want to get into playing the scoring game but that has an intrinsic value too. It would be higher to the government than it would be to you and me because we are buying them higher to start with. The retail would be the same. Maybe there is something there where we can do something to have them buy more vehicles and save the money on the lease.

Mr. DANIERO. We will try to get you some information on the differentials.

Mr. HOYER. If you could do that. And give the examples of what the costs are.

[The information follows:]

LEASING VERSUS OWNERSHIP

The table below illustrates a comparison of the costs associated with lease/purchase of a passenger vehicle for GSA's Interagency Fleet Management System. Since the operating costs for both leasing and ownership are the same, they are not relevant for this comparison:

	1993 Ford Tempo lease	1993 Ford Tempo purchase
Capitalized value	$7,707	$7,707
Principal	3,607	3,607
Interest	[1] 1,422	[2] 922
Residual value	4,100	4,100

	1993 Ford Tempo lease	1993 Ford Tempo purchase
Total cost	9,129	8,629
Resale	4,250	4,250
New cost	4,897	4,379

[1] Actual vendor interest rate 7.866 percent.
[2] Treasury interest rate implied 5.125 percent.

Mr. EARLY. We have a chart that is in the same format as for buildings.

Mr. HOYER. Mr. Visclosky.

IMPROVEMENT OF VENDOR QUALITY

Mr. VISCLOSKY. Mr. Chairman, thank you very much. We talked a lot this morning about costs and I think a lot of good points were made. I would like to talk about quality for a few minutes. Last year the GAO reported that the General Services Administration continues to do business with a number of vendors that have a history of supplying defective or poor quality products.

What has caused the GSA to continue this practice, and do you not have access to data that would be necessary for you to identify these vendors and cease doing business with them?

Mr. DANIERO. That is a very good point. We did work very closely with GAO in doing their review. We have developed a very aggressive action plan, which I could submit for the record, which shows the things that we are doing to improve the quality of the vendors we do business with, many of which we have already completed or accomplished.

I would like to say in our defense that I think the GAO report did state that the vast majority of our contracts were good contracts with quality vendors. As part of their study, we provided them our seven worst-case vendors out of 2,000 contracts and they were horrible examples of vendors who were trying to work the system more or less. We do business with big business, 8A business, 8A contractors. We try to help small businesses get started.

In some cases we work with vendors over a period of time to try to improve their quality. Sometimes maybe we do forbear a little longer than we should in some of these. We try not to be punitive with contractors. We try to get them to recognize that quality is good for them as well as us. We are not a mandatory source. Agencies can go elsewhere to buy if they are not satisfied with our product. The quality is very, very important to us.

In the GAO review, one of the major issues that came up is that and this was really central to their whole study. We have vendors who will have let's say 10 or 12 or more contracts. They will be for different items. A paint contractor may be supplying us with common, ordinary latex interior house paint. He may be providing us with ship bottom paint as well, which is a military specification with very, very stringent requirements. What will happen on some occasions is that this contractor will be doing fine on eight contracts he has got for certain types of paint and he gets into trouble on one or two that are vastly more difficult. We may have to terminate him. We may have quality problems with him and so forth, and one of the issues has been—has become, can we reject him,

find him nonresponsible in future bids on paint contracts where he has not had a problem.

So some of the things that they reported about our awarding contracts to the same poor performing vendors were contracts in which he was not having a problem. And we are wrestling with that from a legal standpoint as to whether we can de facto debar a vendor on the basis of nonresponsibility for a totally unrelated—not totally unrelated, but basically a different product with which he has not had the problem. That is not an excuse.

That is just to say that some of the ones they looked at were in that category. We know that it takes diligence on our part to watch the contractors, to make sure they are giving us quality products, and we are taking a lot of aggressive actions to ensure that, short of trying to be punitive or what-have-you with the contractors.

Mr. VISCLOSKY. You mentioned seven of the worst offenders out of 2,000. I assume they were a sampling of the GAO study; is that correct?

Mr. DANIERO. It was the worst. They asked us to pick the seven worst and we handed them the seven worst.

Mr. VISCLOSKY. So we wouldn't be talking about a supplier who out of eight contracts has a lack of performance in one or two areas. We are talking about people who systematically had a historical problem?

Mr. DANIERO. Some of those contractors were in that category too. They did have some contracts they were doing okay on. They had some contracts they were doing terribly on.

Mr. VISCLOSKY. Out of the seven, how many simply were bad contractors that you couldn't sever out a portion of their——

Mr. DANIERO. There were, I would say—I think the GAO acknowledged in the report that several of those contractors we had referred to our Inspector General we had taken action to debar. So there were several in there that were bad to the extent that we did not want to do business with them at all.

Mr. VISCLOSKY. Two of the seven?

Mr. DANIERO. I would say maybe half of the seven. Three or four out of the seven.

Mr. VISCLOSKY. In terms of the General Services Administration, is there a longer list for us to reference of people with whom you have historically had a problem? I'm not necessarily looking for someone who had an isolated problem once or twice.

Mr. DANIERO. I will give you an example, some information we have. We have what we call a contractor alert list which keeps score on our vendors' performance in terms of delivery and quality. We also have a report card that we provide to the company to tell him how he is doing. So he can't come in and say, you didn't recognize that—we actually do a score card and so forth. So there is that kind of interaction.

Mr. VISCLOSKY. How often do you publish your alert list? Is it an annual publication, quarterly?

Mr. DANIERO. I think it is more often than annually but I wouldn't be sure it was quarterly. It may be quarterly.

Mr. VISCLOSKY. The general accounting report was once a month and you now have an action plan in place.

Mr. DANIERO. Most of which has already been implemented.

Mr. VISCLOSKY. What, from your perspective, would be a fair criterion by which we could examine GSA's progress in this regard? Would it be to look at an action list that was in existence in June of 1992, in October of 1992, to look at that this spring and to hold you accountable as to the action plan implementation relative to those contractors? I am looking for something by which we could base a measurement and a decision.

I appreciate the action plan. I appreciate that the GAO report is only a month old, but I don't want to be vague.

Mr. DANIERO. I think that some of their comments, recommendations, dealt with process and procedure. I think that we could demonstrate——

Mr. VISCLOSKY. I am worried about a list of people that you have identified in an alert that in six months, or twelve months later, there are still some serious problems dealing in business with the Government of the United States.

Mr. DANIERO. Yes, I think we could probably put together something.

Mr. VISCLOSKY. If you will, for the record, let us know what you think is a fair way to judge your progress in this area relative to an existing list so that this spring and this summer we would have a basis of comparison, I would appreciate that.

Mr. DANIERO. The one caveat I would lay on the table still yet is my continuing concern about how we deal with vendors who do poorly in one——

Mr. VISCLOSKY. Again, I am not looking to be punitive, but my concern is that there are people who have been abusive and they ought to be out. If they are not out, the question I would have for the GSA is, why aren't they? Because at some point if people have misrepresented themselves, if they have failed to provide a service to the American people, then they ought to be out.

[The following information was provided by GSA:]

FSS suggests that the best way to measure progress is to examine contract awards to ensure that when a contractor is judged to be incapable of performing a particular contract, an award is not forthcoming. With the improved data that FSS has now in place regarding contractor performance, the number of contract awards to contractors judged to be a poor performer, and incapable of performing on a proposed contract award should be eliminated except where significant justification exists on a case-by-case basis or the agency is overruled by the Small Business Administration via a Certificate of Competency.

Using this approach, as a baseline as of February 22, 1993, 20 contractors identified as poor performers and given an incapable Plant Facility Report, were in fact awarded 32 contracts. A listing of those contractors and the reason for award is attached.

Additionally, we have attached the current Contractor Alert List issued February 18, 1993. This list contains the names of contractors who have experienced the following performance characteristics: (1) one or more contracts terminated, (2) greater than 1 percent of total purchase orders terminated for default, (3) less than 90 percent on time delivery to original due date, (4) greater than 1 quality cure letter issued, (5) greater than 1 major customer complaint, and (6) greater than 10 percent lab rejections on samples submitted for testing. There are 390 suppliers on the current list. It should be emphasized that listing on the CAL is considered a warning to vendors of marginal performance which, if allowed to continue or deteriorate could affect their standing for future awards. This represents 20% of our suppliers; in other words, 80% of our suppliers (1691) are performing at a level above our thresholds for the alert list. We suggest tracking this ratio over time to measure progress. We are tracking these suppliers closely to ensure performance improvement, and future awards will be made to these suppliers only after conducting a careful analysis of their current status, and in particular, the area of performance cited in the Alert List.

With respect to the issue of the number of poor performers currently holding contracts, by way of example, we note that 63 suppliers on the current Contractor Alert List have either had a contract terminated or experienced greater than 1 percent of purchase orders terminated. In total, these suppliers hold 249

contracts; however, on 186 of these contracts their performance is above the minimum requirements of our Alert List. However, GAO in their survey counted all contracts held by poor performers, regardless of performance. We continue to stress that under current procurement regulations, future contract awards can only be denied on a case-by-case basis, and not on a blanket basis, unless debarment/suspension action can be supported.

Attachments

CONTRACTOR LIST OF UNFAVORABLE PFR's

Region	Company	Contract No.
2	Annin & Co.	61460, 61480, 61870
2	Brenner Paper	8315A, 8316A
9	Century Fastener	36770, 37010, 38840
9	Davlin Paint	52175, 52431
5	Elkart Brass	39720
9	Flamemaster	52441
7	Granco	78201
5	J & H Manufacturing	50224
4	JS Technology	50630
9	Kahl Scientific	52900
5	Ludlow Compo	40106
2	Makoor Products	52408
9	Nupla	14722, 14723
5	Omega Chemic	52429
5	Peace Industry	58387
2	Steven Industries	52171, 52259, 52261, 52351
2	Stevens Walden	50500, 50501
2	TACC International	52483
4	Triangle Coatings	52430
9	Zephyr Mfg. Co.	50178, 50179

With the exception of Century Fastener, these contracts were awarded as a result of Small Business issuing Certificates of Competency to these vendors. In the case of Century Fastener, the PCO overrode the incapable report.

THE FSS CONTRACTOR ALERT LIST

This list contains the names of active contractors with the following performance:

Reason Code 1: One (or more) contract terminated for default

2: Greater than 1% of total P.O.'s terminated for default

3: Less than 90% on time to original due date

4: Greater than 1 Quality Cure Letter issued

5: Greater than 1 "Category 1" complaint

6: Greater than 10% lab rejections on samples submitted for testing

This list will be issued quarterly, effective October 1, 1992, and sent to FSS Commodity Centers, as well as Contract Management offices.

Commodity Center Codes:

E	Office Supplies	M	Tools--Kansas City
F	General Products	N	General Procurement--New York
H	Paper Products	T	Paints & Chemicals
I	Tools--Powered	U	Furniture
J	Office Equipment	V	Furniture
L	Tools--Nonpowered	Z	Scientific Equipment

Contractor Alert List of Poor Performing Contractors

(Alphabetical Listing by Supplier)

SUPPLIER	CONTRACT	ACO NO.	PFR	COMM CTR	REASON
3M CO	56336	C20	F	E	3
A G H INDUST	40820	F67	F	F	3
A.W. MACK MF	09026	B24	F	I	3
A.W. MACK MF	09027	B24	F	I	3
A.W. MACK MF	14521	B24	F	I	3
ABC PAPER/ME	51140	B05	F	F	3
ACCO USA INC	58302	B24	N	E	3,4
ACCUMETRIC	51915	A58	F	T	3,6
ACME BRIEF C	58075	B23	F	E	6
ACME STAPLE	58299	B06	F	E	2,3
ACOUSTICAL P	5220A	B03	F	U	3
ADVANCE TRAN	32350	C10	F	F	3
AKRON PAINT	52389	C06	F	T	6
AKZO SALT, I	49824	B25	F	T	3
ALABAMA INST	42740	A59	N	F	3
ALAN T. SEEL	31310	B05	N	F	3
ALLIANCE TOO	14483	C02	N	I	3
AMERICAN DEV	41016	C12	F	U	3
AMERICAN EQU	45320	A57	U	F	2,3
AMERICAN IDE	42150	B23	N	F	3
AMERICAN NAT	5616A	A50	F	V	3
AMERICAN SAF	52244	B32	N	T	3
AMERICAN STE	38210	F87	F	F	3
AMERICAN TIS	59008	B22	F	H	3
AMERICAN TIS	59075	B22	F	H	3
AMERICAN TIS	59181	B22	F	H	3
AMERICAN TIS	59221	B22	F	H	3
AMERICAN WRI	58181	B03	N	E	3
AMERON MARIN	52192	S90	F	T	6
AMETECK INC	4031A	A58	F	E	3
AMPCO METAL,	14427	F67	F	I	3,6
ANCHOR INDUS	14518	B06	F	I	3
ANETECK INC	6019A	A58	F	E	2,3
ANNIN & CO.	42830	B31	F	F	2,3
AQUA-TROL CO	51600	B22	F	F	3
ASHLAND CHEM	49663	A53	F	T	3
ASHLAND FORG	08654	C03	F	I	2,3
ASHLAND SCIS	14539	C03	F	I	1,2
ATI IND.	08986	S90	N	I	6
ATLAS PAPER	59217	A60	F	H	3
AVERY DENNIS	56338	B03	F	E	3

Contractor Alert List of Poor Performing Contractors

(Alphabetical Listing by Supplier)

SUPPLIER	CONTRACT	ACO NO.	PFR	COMM CTR	REASON
AVERY DENNIS	57244	B03	F	H	1,2
B. C. AMES	14527	B03	N	I	3
B. H & W. MF	12856	F17	F	V	3
BADGER PAPER	59028	C20	F	H	3
BADGER PAPER	59064	C20	F	H	3
BADGER PAPER	59116	C03	N	H	3
BADGER PAPER	59161	C20	F	H	3
BADGER PAPER	59213	C03	F	H	3
BAKER MFG CO	8365A	F17	F	V	3
BAKER SEALAN	51846	B31	N	T	2,3,6
BAKER SEALAN	51916	B31	F	T	2,3,6
BALTIMORE	50147	A57	F	I	6
BAR-ES, DIVI	08964	C04	F	I	3
BATES FILE C	08943	A60	F	I	3
BELKA PRODUC	58063	B24	F	E	3
BEST FOAM FA	56252	C22	F	E	3
BEST FOAM FA	56253	C22	F	E	3
BEST FOAM FA	56378	A50	F	E	3
BEST FOAM FA	58310	C22	F	E	2,3
BEST FOAM FA	58341	C22	N	E	3
BETAKUT USA,	51230	S90	F	F	3,6
BETTER PACKA	58312	B04	F	E	3
BILTRITE COR	12868	B03	F	V	3
BINDERCRAFT	56364	B22	F	E	3
BINDERCRAFT	58365	B22	N	E	3
BLIND WORK A	57133	B25	F	H	3
BOSMA INDUST	42080	C02	N	F	3
BOWERS ENVEL	7021A	C02	N	H	3
BROWER COMPA	12304	A71	F	U	3
BUFFALO CHIN	47790	B25	F	F	3
BUFFALO CHIN	49730	B25	F	F	3
BUNKER INDUS	39890	F87	F	F	3,6
C S D INC	49640	F57	F	T	3
C. S. OSBORN	08978	B34	F	I	6
CALIFORNIA P	58026	S89	F	E	3
CAMPBELL CHA	33600	A56	F	F	6
CAN-AM ABSOR	49814	F57	F	T	3,6
CAST MACHINE	51360	F27	F	F	3
CENTOCO MFG.	53530	F87	N	F	3
CENTURION	37940	F87	F	F	3
CENTURY FAST	36770	S92	U	F	2,3

Contractor Alert List of Poor Performing Contractors

(Alphabetical Listing by Supplier)

SUPPLIER	CONTRACT	ACO NO.	PFR	COMM CTR	REASON
CENTURY FAST	37010	S92	U	F	1,2,3
CERTIFIED	48250	A50	F	F	3
CHEMSCOPE CO	49749	F57	F	T	2,3
CHESAPEAKE S	51240	A57	F	F	3
CINCINNATI A	43810	C13	N	F	3
CLAMP MANUFA	08782	S89	F	I	3
CLAMP MANUFA	14536	S89	F	I	2
CLAMP MANUFA	14537	S89	F	I	2,3
CLASSIC STAM	58246	B22	N	E	3
CLEMENTS NAT	47950	C12	F	F	3
CLEVELAND SK	48270	C04	N	F	3
CLEVELAND SK	49410	C04	N	F	3
CLOVERNOOK H	5105A	C13	F	H	3
CODO MANUFAC	56333	A61	N	E	3
CODO MANUFAC	57138	B00	F	H	2,3
COLUMBIA LOO	56366	B22	F	E	2,3
COLUMBIA SUR	09030	B22	F	I	3
CONSOLAZIO D	50163	B23	F	I	2,3
CONSOLIDATED	14434	S90	F	I	3
CONSOLIDATED	14652	S90	F	I	3
CONSTRUCTIVE	56118	B04	N	E	3
CONSTRUCTIVE	56380	B04	F	E	3
CONSTRUCTIVE	49740	B04	N	F	3
CONTACT EAST	78006	B05	F	M	3,6
CONTINENTAL	59033	C10	F	H	3
COOPER INDUS	14740	A58	F	I	3
COOPERATIVE	58166	F27	N	E	3
COOPERATIVE	39230	F27	F	F	3
COURTAULDS A	51845	S92	F	T	3,6
COURTAULDS A	51922	S92	F	T	3,6
COURTAULDS A	52294	S92	F	T	3
CREST IND	52073	F57	F	T	6
CSID INTEGRA	32760	F87	F	F	3
CSID INTEGRA	36610	F87	F	F	6
CST OFFICE P	59231	S83	F	H	2
CULVER INDUS	20660	C07	F	F	3
CURTISS-WRIG	14736	A51	F	I	3
CUTLER MANUF	14202	A60	F	U	3
CYKLOP STRAP	5639A	A56	F	N	3
D D BEAN	62340	A55	F	F	3
DAKOTA WESTE	58306	F13	F	E	3,6

Contractor Alert List of Poor Performing Contractors

(Alphabetical Listing by Supplier)

SUPPLIER	CONTRACT	ACO NO.	PFR	COMM CTR	REASON
DALLAS LIGHT	13676	F47	F	Q	3
DANIELS	4DANM	A60	N	M	3
DANIELS MFG	08892	A60	F	I	3
DANS WHETSTO	37530	F87	F	F	6
DAP, INC.	38250	F97	U	F	1,2,3
DATA DOCUMEN	59134	S92	F	H	2
DATA FILERS	59097	A56	F	H	2,3
DATAFILERS	59098	A56	F	H	2,3
DAUBERT CHEM	52194	C12	F	T	2,3,6
DAVLIN PAINT	52230	S85	F	T	3
DAVLIN PAINT	52341	S85	F	T	6
DAVLIN PAINT	52415	S85	F	T	2,3,6
DAWSON SPRIN	32180	F27	F	F	3
DEFT, INC.	52268	S83	F	T	3
DELEWARE COU	18038	A57	F	F	3
DELT WOOD PR	3317A	F17	F	V	3
DESIGN CONTE	8361A	B06	F	V	2,3
DESIGN CONTE	8362A	B06	F	V	3
DEVOE COATIN	52367	S90	F	T	3,6
DIAL A PICK	45130	F17	F	F	3
DICK BROTHER	31480	B23	N	F	3
DIVERSIFIED	6018A	F13	F	E	3
DIXIE INDUST	37510	A60	F	F	6
DOWLEY MANUF	08954	C24	F	I	3
DREXEL HERIT	3314A	A51	F	V	3
DULUTH LIGHT	33880	C20	N	F	3
DURABLE INC.	56279	C10	F	E	3
DURHAM LIONS	64280	A71	F	F	3
DURHAM LIONS	59171	A71	F	H	3
DURSTON MFG.	50201	S89	N	I	3
DYNA-SEAL CO	52106	S89	F	T	6
DYNALITE PRO	31510	C13	F	F	3
EAGLEWARE MA	52600	S90	F	F	3,4
EAGLEWARE MF	40080	S90	N	F	3
EASCO HAND	14642	A57	F	I	3
EASCO HAND T	08815	A57	F	I	3
EASCO HAND T	14650	B03	F	I	2,3
EASCO HAND T	50017	F67	F	I	3
EASCO HAND T	50125	F67	F	I	3
EASCO HAND T	78095	F67	F	M	3,6
EASTER SEAL	58096	A61	N	E	3

Contractor Alert List of Poor Performing Contractors

(Alphabetical Listing by Supplier)

SUPPLIER	CONTRACT	ACO NO.	PFR	COMM CTR	REASON
ECONOMY DATA	59135	F13	F	H	2
EDER FLAG MA	42850	C20	F	F	2,3
ELBE-CESCO,	56144	B05	F	E	3
ELBE-CESCO,	56379	B05	F	E	3
ELECTRICAL I	52160	S92	F	T	3
ELECTRO IND	56147	F67	N	E	3
ELECTRONIC T	14581	B04	N	I	3
ELECTRONIC T	14675	B04	N	I	3
ELF MACHINE	14411	F67	N	I	3
ELF MACHINE	78054	F67	F	M	3
ELKHART CASE	45400	C02	F	F	3
ELKHART CASE	47850	C02	F	F	3
EMECO INDUST	41018	A57	F	U	2,3
ENMAR FINISH	52192	S90	F	T	6
ENMAR FINISH	52277	F57	N	T	3
EVEREADY BTY	35040	C24	F	F	3
EXECUTIVE FU	5340A	C22	F	U	3
F & H MANUFA	14548	B22	F	I	3
F P I	42950	C07	N	F	3
F&H MFG CO.	45220	B22	F	F	3
FABER-CASTEL	51935	A53	F	T	3
FEDERAL CORR	48540	S90	N	F	3
FEDERAL CORR	14215	S90	F	U	3
FEDERAL PRIS	54126	F47	N	E	3
FEDERAL PRIS	54364	F77	N	E	3
FEDERAL PRIS	16906	S87	N	F	3
FEDERAL PRIS	16937	B24	F	F	3
FEDERAL PRIS	37480	F77	N	F	3
FEDERAL PRIS	42960	A55	N	F	3
FEDERAL PRIS	44190	C07	N	F	3
FEDERAL PRIS	44540	A50	N	F	3
FEDERAL PRIS	49860	A50	N	F	3
FEDERAL PRIS	60630	S83	F	F	3
FEDERAL PRIS	12861	C23	N	V	3
FGP, INC.	36310	F87	F	F	2,3
FINE ORGANIC	49796	C12	F	T	3
FITZPATRICK	49792	C12	F	T	3
FLAMEMASTER	51774	S89	U	T	2,6
FLAMEMASTER	52107	S89	F	T	6
FORMS CORP	59136	C09	F	H	2
FOSTER PROD	51808	F57	F	T	3

Contractor Alert List of Poor Performing Contractors

(Alphabetical Listing by Supplier)

SUPPLIER	CONTRACT	ACO NO.	PFR	COMM CTR	REASON
FPI COLORADO	20980	F47	F	F	3
FPI LA TUNA	43470	F77	N	F	3
FPI LA TUNA	52167	F77	N	T	3
FPI LEAVENWO	14210	F47	F	U	3
FPI PHOENIX	33840	S90	N	F	3
FPI UNICOR	12861	C23	N	V	3
FPI/UNICOR	64410	F17	N	F	3
FRANK W. WIN	37720	A52	F	F	3,6
GARY PLASTIC	44880	B23	N	F	3
GENERAL ABRA	51570	B25	F	F	3
GENERAL PNEU	14422	F37	F	I	3
GIBSON-HOMAN	52313	S83	F	T	6
GLOBE WEIS	59124	A50	F	H	3
GRANCO INDUS	09021	F67	F	I	3,6
GRANCO INDUS	09022	F67	F	I	3
GRANCO INDUS	14442	F67	F	I	2
GREAT NECK S	08877	B24	F	I	3
GREAT NECK S	50144	B24	F	I	3
GREENFIELD I	78117	B24	F	M	3
GRIGGS PAINT	52324	S89	F	T	6
H A STILES C	49870	B06	F	F	3
H F COORS CO	20550	S87	N	F	3
HALSEY INC	42130	A56	F	F	3
HALSEY INC	42140	A56	F	F	3
HARDWARE & I	38760	B32	F	F	1,2
HARROLD TOOL	08807	C06	N	I	3
HARVARD INTE	12340	F17	F	U	3,6
HELENA REHAB	19505	F27	N	F	3
HELENA REHAB	36740	F27	N	F	3
HELENA REHAB	37540	F27	N	F	3
HENTZEN CHEM	51641	C03	F	T	3
HEWLETT PACK	58370	C04	F	E	3
HILLSIDE MET	41090	B32	F	F	3
HIMOLENE CAL	56434	S89	F	E	6
HOLLAND MANU	59046	B31	F	H	3
HOLLINGSWRTH	14685	F67	N	I	3
HOUSTON POLY	58329	F13	N	E	2
HOWE FURNITU	6302A	B32	F	U	3
HUCK MFG CO.	08879	B24	F	I	3
HUNT MANUFAC	58298	A51	N	E	3
HUNT MANUFAC	57182	A51	F	H	3

Contractor Alert List of Poor Performing Contractors

(Alphabetical Listing by Supplier)

SUPPLIER	CONTRACT	ACO NO.	PFR	COMM CTR	REASON
HUNT MANUFAC	59187	A51	N	H	3
HUNTINGTON B	14682	S90	F	I	3
HUNTINGTON B	14711	S90	N	I	3
IDEAL MANUFA	49590	B04	F	F	3
IDEAL STAMPI	58276	B32	N	E	3
IN-SIGHT	64450	B05	F	F	3
IND. F/T BLI	42710	F17	N	F	3
INDEPENDENT	5641A	B24	F	N	6
INDUSTRIAL C	45550	A71	N	F	3
INDUSTRIAL C	45560	A71	U	F	3
IVEX CORP	57265	C10	F	H	3
IVEX CORPORA	57157	A61	F	H	3
J & H MANUFA	50224	C06	U	I	3
J H WILLIAMS	50006	A59	F	I	6
J S TECHNOLO	08842	A50	F	I	3
J S TECHNOLO	08843	A50	F	I	3,6
J S TECHNOLO	09003	A53	F	I	2,3,6
J S TECHNOLO	09004	A53	F	I	3
J S TECHNOLO	14526	A50	F	I	2,3
J S TECHNOLO	78028	A50	N	M	2,3
J&H MFG CO.	14717	C06	F	I	6
JARVIS CUTTI	08971	A55	F	I	3
JARVIS CUTTI	14727	A55	F	I	6
JEBCO, INC.	14549	A53	F	I	3
JEFFERSON RE	56187	B25	F	E	3
JOY CARPETS,	4996A	A60	F	V	3
JUSTRITE MAC	14461	F67	N	I	3
K & G MFG. C	78166	C02	F	M	3
K-D LAMP CO	43430	C13	U	F	3
K-D TOOLS DI	50017	F67	F	I	3
KAL CAMERON	14584	A61	F	I	3
KANSAS INDUS	48330	F47	N	F	3
KAPCO	45440	C06	F	F	6
KAPCO	64090	C06	F	F	3
KCL CORP	56289	F47	F	E	3
KELL STROM T	14506	B03	N	I	3
KIPPER & CO.	33220	B25	N	F	3
KLEIN TOOLS,	14718	C22	F	I	6
KLEIN TOOLS,	14749	C22	N	I	3
KNOX COUNTY	40009	C07	N	V	3
KOCH MATERIA	52271	F57	F	T	3

Contractor Alert List of Poor Performing Contractors

(Alphabetical Listing by Supplier)

SUPPLIER	CONTRACT	ACO NO.	PFR	COMM CTR	REASON
LABBCO	49689	F57	F	T	3,6
LABBCO	49754	F57	F	T	3
LABELON CORP	56404	B25	N	E	3
LABELON CORP	56405	B25	F	E	3
LAMSON & GOO	44520	B24	F	F	3
LAMSON & GOO	44620	B24	F	F	6
LIGHTHOUSE F	18040	S92	F	F	3
LIGHTHOUSE I	49330	B23	N	F	6
LIONS CLUB I	45080	A71	N	F	3,6
LONGLEY SUPP	53470	A51	F	F	3
LOWELL CORP	08884	B03	F	I	3
LPS INDUSTRI	57232	B32	F	H	3
LUDLOW CORPO	56250	F13	F	E	2,3
LUDLOW PAPER	58192	F13	F	E	2,3
LUSTRO PLAST	45610	S89	F	F	3
LUTZ SUPERDY	09039	B34	F	I	2
LUTZ SUPERDY	50154	B34	F	I	3
LUTZ SUPERDY	50219	B34	F	I	3
LUTZ SUPERDY	30014	B34	F	J	3
LUTZ SUPERDY	10111	B34	F	Q	2
M & F CASE C	58147	B05	N	E	3
M. M. MFG. T	14701	F67	F	I	3
M. M. MFG. T	14702	F67	F	I	3
MAIL WELL EN	5077A	C04	F	H	3
MAKOOR PRODU	49812	B24	F	T	3
MAKOOR PRODU	51853	B24	N	T	3,6
MAKOOR PRODU	51942	B24	N	T	3
MANNINGTON C	3366A	A50	F	V	3
MARATHON WAT	10101	B25	F	Q	3
MARATHON WAT	10107	B25	N	Q	3
MARION 100 I	57195	C12	N	H	3
MARTIN TOOL	08714	F37	N	I	3
MC GILL META	56419	C24	F	E	3
MC GREGOR PR	59265	S85	F	H	2
MCGREGOR	59138	F13	F	H	2
MCGREGOR PRI	59229	S85	F	H	2
MGB FASTNERS	35500	B04	N	F	3
MIDLAND SUPP	1MISC	B05	N	M	3
MIDLAND SUPP	78103	B05	F	M	3
MILES KEDEX	58145	B03	F	E	3
MILWAUKEE EN	7027A	C20	N	H	3

Contractor Alert List of Poor Performing Contractors

(Alphabetical Listing by Supplier)

SUPPLIER	CONTRACT	ACO NO.	PFR	COMM CTR	REASON
MILWAUKEE EN	7028A	C20	N	H	3
MINNESOTA MI	58314	C20	N	E	3
MINNESOTA TW	08898	C03	N	I	3
MIRAX CHEMIC	56376	F13	F	E	3
MIRAX CHEMIC	58403	F13	F	E	3
MOBIL CHEMIC	58400	B25	N	E	3
MOHAWK CARPE	4901A	A53	N	V	3
MOHAWK VALLE	62770	B24	F	F	3
MOODY TOOLS	08760	B05	N	I	3
MOORE BUSINE	59140	S83	F	H	2
MORTON MFG C	78165	C12	F	M	3
MUTUAL INDUS	41990	A52	U	F	6
NAPA VALLEY/	54149	S87	F	E	3
NASH METALWA	18780	B22	F	F	2,3
NASH METALWA	40060	B22	F	F	3
NASH METALWA	40070	B22	F	F	3,6
NASH METALWA	40390	B22	F	F	3
NASH METALWA	40860	B22	F	F	3
NASH METALWA	41350	B22	F	F	3
NASH METALWA	45140	B22	F	F	3,6
NASH METALWA	48210	B22	F	F	2,3
NASH METALWA	62630	B22	F	F	3
NATIONAL BRU	61420	C10	F	F	3
NATIONAL CON	56389	A58	F	E	3
NIB ALEXANDE	18030	A55	N	F	3
NIB ALEXANDE	40200	A55	F	F	3
NIB ALEXANDE	41040	A55	N	F	3
NIB ALEXANDE	12859	A55	N	V	2,3
NIB BERKELEY	49686	F57	F	T	6
NIB DURHAM	41030	A71	N	F	3
NIB DURHAM	42720	A71	N	F	3
NIB DURHAM	55182	A71	F	H	3
NIB ST LOUIS	39220	F27	F	F	3
NIB SWARTZ	37170	F87	N	F	6
NIB TYLER	55275	F47	N	H	3
NIB WINSTON	44440	A55	N	F	3
NICHOLSON SA	50091	A50	N	I	3
NILES CHEMIC	52267	C23	F	T	3,6
NILES CHEMIC	52325	C24	F	T	6
NILES CHEMIC	52414	C23	F	T	6
NISH LYNCHBU	41460	A55	F	F	3

Contractor Alert List of Poor Performing Contractors

(Alphabetical Listing by Supplier)

SUPPLIER	CONTRACT	ACO NO.	PFR	COMM CTR	REASON
NISH PITTSBU	54322	A61	N	E	3
NISH RONCEVE	42520	A55	N	F	3
NOESTING PIN	58021	B23	N	E	3
NORPAK CORP	59081	B32	F	H	3
NORTON CO	33810	B03	F	F	3
NORTON COMPA	36820	F87	F	F	3
NORTON COMPA	36860	F87	F	F	2,3
NORTON COMPA	36950	F87	F	F	3
O AMES COMP	08973	A57	F	I	3
OKLAHOMA LEA	34450	F87	N	F	3
OMEGA ELECTR	42020	C02	F	F	2
ONEIDA, LIMI	42530	B24	F	F	3
OPPORTUNITY	58162	C20	N	E	3
OSSIAN CHEMI	49698	F13	F	T	3
OWATONNA	0005A	C03	F	M	3
OWEN MANUFAC	48920	A51	F	F	3
OXFORD PENDA	14218	B32	F	U	2,3
PACIFIC QUAL	56162	S90	N	E	3
PACKAGING AC	4154A	A57	F	E	3
PACKAGING SP	56377	C24	F	E	3
PARKER AMC	51892	C24	F	T	2,3
PARTS MASTER	38210	F87	F	F	3
PARVA INDUST	30002	B04	F	J	3
PATROIT PAPE	59065	B03	F	H	3
PENETONE COR	52225	B32	F	T	3
PETROLEUM PA	49904	A60	F	T	3
PLASTICS PAC	49769	A53	F	T	3
PLURIBUS PRO	14217	B22	N	U	3
PLURIBUS PRO	41014	B22	N	U	3
POLY PLASTIC	56304	A52	F	E	3
POLY PLASTIC	56438	A52	F	E	3
PORTAGE TOOL	08731	C06	N	I	3
PPG INDUSTRI	52124	A53	N	T	3
PRATT & LAMB	51751	F13	F	T	3
PRATT & LAMB	51872	F13	F	T	3
PRATT & LAMB	51875	F13	F	T	3
PRATT & LAMB	51876	F13	F	T	3
PRATT & LAMB	51926	F13	F	T	3
PRATT & LAMB	51939	F13	F	T	3
PRATT & LAMB	52032	F13	F	T	3
PRATT & LAMB	52103	F13	F	T	3

Contractor Alert List of Poor Performing Contractors

(Alphabetical Listing by Supplier)

SUPPLIER	CONTRACT	ACO NO.	PFR	COMM CTR	REASON
PRESIDENT CO	56175	B33	F	E	3
PRESIDENT CO	58262	B32	F	E	2
PRESIDENT CO	58264	B32	N	E	2,3
PRESIDENT CO	58265	B32	N	E	2,3
PRESIDENT CO	58342	B32	F	E	2,3
PRIDE CONTAI	56315	C10	F	E	3
PRO AMERICAN	14584	A61	F	I	3
PRODUCTS ENG	50322	S83	F	I	6
PROEDGE	50279	B34	F	I	3
PUMA CHEMICA	49676	F57	F	T	3
QSC CONTAINE	56378	A50	F	E	3
QSC CONTAINE	58160	A50	F	E	3
QSC CONTAINE	58255	A50	F	E	3
QSC CONTAINE	58273	A50	F	E	2,3
QSC CONTAINE	58321	A50	N	E	3
QSC CONTAINE	58332	A50	N	E	2
QSC CONTAINE	58350	A50	N	E	3
QUAKER TOOL	61570	C06	F	F	3
R P M INDUST	59908	B25	N	E	3
R.H. CARLSON	58169	B04	F	E	3
R.H. CARLSON	49781	B04	F	T	3
R.H. CARLSON	52105	B04	F	T	3
R.H. CARLSON	52143	B04	N	T	3,6
R.H. CARLSON	52161	B04	F	T	3
RAINBOW EMBL	49690	B05	F	F	2,3
RALEIGH LION	46770	A71	N	F	6
RALEIGH LION	57153	A71	F	H	3
RALEIGH LION	59170	A71	F	H	3
RALRUBE INC	49835	C24	F	T	6
RAN PAIGE	61970	A71	F	F	2,3,4
RAN PAIGE	62040	A71	F	F	2,4
RAR ENTERPRI	30430	F67	F	F	3
RCB PRECISIO	14509	B24	F	I	3
RCB PRECISIO	14522	B24	F	I	2,3
RECTICELFOAM	4975A	A51	N	V	3
REED & BARTO	42660	B05	F	F	3
REED & BARTO	61370	B05	N	F	2
REXSELLIX	49687	A50	F	T	1,6
RJM MANUFACT	58033	A56	N	E	6
RJM MANUFACT	58172	A56	F	E	6
RODCO-BRANDT	3302A	F17	F	V	3

Contractor Alert List of Poor Performing Contractors

(Alphabetical Listing by Supplier)

SUPPLIER	CONTRACT	ACO NO.	PFR	COMM CTR	REASON
ROYAL MAID A	58163	A50	N	E	3
RU-GO PLASTI	56191	F13	F	E	3
RUPACO PAPER	57181	B33	F	H	3
RUTCO PRODUC	52397	C06	F	T	3
S AND K PROD	63720	C13	F	F	3
SAFINA	58042	F47	F	E	6
SAINBERG & C	56421	B22	F	E	3
SAMUEL LEVIN	31480	B23	N	F	3
SBS PRODUCTS	30930	C24	F	F	3
SEALED AIR	59250	A58	F	H	3
SEALED AIR C	59250	A58	F	H	3
SEE-LECT IND	14440	B04	F	I	3
SEEKONK MFG	08844	B05	F	I	2,3,6
SEEKONK MFG	09024	B05	F	I	2,3
SEEKONK MFG	78159	B05	F	M	3
SEMCO	52252	A60	F	T	3,6
SENTRY PAINT	52021	A57	F	T	3
SEYMOUR HOUS	42020	C02	F	F	2
SHADE INFORM	59143	C03	F	H	2
SHAWNEE HILL	46080	A55	N	F	3
SHERWIN WILL	51904	C07	F	T	3
SHUFORD MILL	56140	A51	F	E	3
SIERRA TAHOE	33270	S83	F	F	3
SIERRA TAHOE	38370	S83	F	F	3
SIGMA WEST C	78126	S92	F	M	3
SIGNODE CORP	4145A	C12	F	E	3
SIMPLEX NAIL	33800	A53	F	F	3
SNAP ON TOOL	08813	C10	F	I	3
SNAP ON TOOL	14663	C15	N	I	3
SNAP ON TOOL	78109	C10	F	M	3
SNAP-ON.TOOL	14432	C10	F	I	3
SNAP-ON TOOL	14662	C10	N	I	3
SNAP-ON TOOL	14673	C10	F	I	3
SNAP-ON TOOL	50007	C10	F	I	3,6
SNAP-ON TOOL	50024	C10	F	I	3
SNAP-ON TOOL	78093	C10	F	M	3
SNYDER CORP	14504	A55	F	I	2,3
SNYDER CORPO	78052	A55	F	M	3
SOLO CUP COM	46990	C07	F	F	2,3
SOUTHEASTERN	45240	A55	N	F	3
SPECTRUM PAI	58285	B22	F	E	3

Contractor Alert List of Poor Performing Contractors

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SUPPLIER	CONTRACT	ACO NO.	PFR	COMM CTR	REASON
SPIRAL PRODU	58195	B33	F	E	3
SPRAYLAT COR	52201	B23	F	T	3,6
ST. CLAIR CO	63550	C24	F	F	3
STACOR CORPO	6319A	B31	F	U	1,2,3
STANLEY BOST	56261	B05	N	E	6
STANLEY BOST	58300	B05	F	E	3
STANLEY TOOL	50092	B03	F	I	3
STANTON TRAD	46390	B22	F	F	3
STARMARK, IN	49733	A60	F	T	3
STEELCASE, I	41015	C15	F	U	3
STERLING HAN	35100	A50	F	F	3
STERLING MFG	10109	B03	F	Q	3
STEVEN INDUS	51846	B31	N	T	2
STEVEN INDUS	51931	B31	F	T	2,3
STEVEN INDUS	51936	B31	F	T	4,,6
STEVEN INDUS	51943	B31	F	T	4,,6
STEVEN INDUS	52084	B31	N	T	2
STEVEN INDUS	52197	B31	F	T	2,6
STEVENS WALD	14626	B05	F	I	2,3
STEVENS WALD	14670	B05	N	I	2
STEVENS WALD	14721	B05	F	I	2,3
STEVENS WALD	50037	B05	N	I	3
STROUDSBURG	62700	A52	U	F	3
STURTEVANT R	09041	C10	F	I	3
STURTEVANT R	09042	C10	F	I	3
SUNRISE CARG	32070	B25	N	F	3
SUNRISE CARG	35240	B25	F	F	3
SUPREME EQUI	41000	B23	F	U	3
SWINGLINE IN	56260	B24	N	E	2
TACC INTERNA	51933	B03	F	T	2,3,6
TACC INTERNA	52142	B03	F	T	6
TARKETT INC.	12869	A52	F	V	3
TECHCON SYST	51785	S90	F	T	2,6
TECHNI EDGE	09029	B34	F	I	3
TECHNICAL PR	56428	S90	N	E	1,2
TEMPLETON KE	08836	C10	N	I	3
TERRY MANUFA	32190	F27	N	F	3
TESA TUCK IN	58325	B24	N	E	2,3
TEXAS LIFTOF	4114A	F47	F	E	3
TEXAS STOCK	59162	F13	F	H	2
TEXAS TRUNK	31010	F47	F	F	3

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SUPPLIER	CONTRACT	ACO NO.	PFR	COMM CTR	REASON
THE CLEVELAN	14656	C04	F	I	3
THE FONDA GR	45350	B05	F	F	2,3
THE GUNLOCKE	3925A	B25	F	U	3
THE GUNLOCKE	8703A	B25	F	U	3
THE HOMER LA	61290	A61	F	F	2,3
THE HON CO.,	3924A	A56	F	U	3
THE HON CO.,	5339A	A56	F	U	3
THE KENT CO	44770	C02	F	F	3
THE LIGHTHOU	52422	F57	F	T	3
THE LIGHTHOU	52486	F57	N	T	3
THE PULLMAN	08974	C12	F	I	3
THE PULLMAN	50048	C12	F	I	3
THE RIDGE CO	08932	C24	F	I	3
THE RIDGE TO	08919	C24	F	I	3
THE RIDGE TO	08932	C24	F	I	3
TOWER FASTEN	50630	B22	F	F	3
TRADING ATLA	46600	A53	F	F	3,6
TRANS WESTER	56244	S85	F	E	3
TRANS WESTER	56432	S85	F	E	3
TRIANGLE COA	52096	S85	F	T	6
TRIANGLE COA	52133	S85	F	T	6
TRICO METAL	62060	A50	F	F	3
TRUE TEMPER	39990	A56	F	F	3
TRUE TEMPER	08944	A56	F	I	3
TUCK INDUSTR	56201	B24	F	E	6
TUCK INDUSTR	58048	B24	N	E	3
U S DEPT OF	58082	F47	N	E	3
U. S. DEPT.	58085	S89	N	E	3
UNICOR	42960	A55	N	F	3
UNICOR	44920	A50	N	F	3
UNICOR	49860	A50	N	F	3
UNICOR - FED	33840	S90	N	F	3
UNICOR - FED	35120	A71	N	F	3
UNICOR 48700	48700	A55	N	F	3
UNICOR FEDER	60570	B24	F	F	3
UNICOR FPI	38510	C24	N	F	3
UNICOR FPI	57247	C20	F	H	3
UNICOR SIGN	60400	S89	N	F	3
UNICOR, FPI	18207	F77	N	F	3
UNICOR/FEDER	58011	F47	N	E	3
UNIRULE INDU	49610	S92	F	F	3

Contractor Alert List of Poor Performing Contractors

(Alphabetical Listing by Supplier)

SUPPLIER	CONTRACT	ACO NO.	PFR	COMM CTR	REASON
UNITED STATE	12861	C23	N	V	3
UNLIMITED	48250	A53	F	F	1,2,3
UNLIMITED SU	08612	A53	N	L	3
UTICA CUTLER	08920	B24	F	I	3
VALJEAN CORP	58408	A60	F	E	3
VALLEY FORGE	42840	A52	F	F	3
VICO & SONS	20770	S83	F	F	3
VICO & SONS	41700	S85	N	F	3
VICO & SONS-	63150	S85	F	F	3
VICO AND SON	46470	S85	F	F	3
VIRGINIA MFG	8364A	A55	F	V	3
WEISSENFELS,	33700	B05	N	F	3
WESTERN HARD	08734	S85	F	I	3
WESTERN HARD	08823	S85	N	I	3,6
WHIRLPOOL CO	14812	C06	F	L	3
WICHITA IND.	54402	F47	N	E	3
WICHITA IND.	54403	F47	N	E	3
WICHITA IND.	60030	F47	N	F	3
WINSTON SALE	58076	A55	N	E	3
WINSTON SALE	64240	A55	F	F	3
WISCRAFT	08906	C03	N	I	3
WISCRAFT, IN	40002	C03	N	V	3
WOODINGS-VER	14402	F67	F	I	3
WOODINGS-VER	14403	F67	F	I	3
WOODINGS-VER	50312	F67	F	I	3
WORK AREA PR	62100	C10	F	F	3
WORLD WIDE	30005	F37	F	J	3
XTO, INC.	52162	B25	F	T	3
ZEPHYR MFG C	08680	S87	N	I	3
ZIM MFG CO	14677	C10	N	I	3

CONTRACTOR ABUSE

Mr. HOYER. Can I stop you for just one second? You are shaking your head. Do you agree with Mr. Visclosky's statements that if the contractor is obviously abusing—not just being unable to perform—there is obviously a difference, even though it may lead to the same result, do you believe that contractor ought to be disqualified from doing business with the government in that area or on a continuing basis?

Mr. DANIERO. Yes. If a contractor is abusing the system and he has a record of doing that, either in terms of quality or in terms of delivering to us on time or whatever, we certainly have the wherewithal to take debarment action based on performance, and I think that is what you are referring to.

Mr. HOYER. And as I understand Mr. Visclosky's line of questioning, that getting the information on which we could make that judgment, is that in fact being pursued?

Mr. DANIERO. I think his question was, provide a base line of sometime in 1992 when this report was being done versus a base line sometime in 1993 that could show some progress in this area.

Mr. HOYER. Excuse me. Go ahead.

EXCESS INVENTORY

Mr. VISCLOSKY. Mr. Lightfoot alluded to the question of excess inventory—I believe in the fashion you were talking about some of the sandbags, for instance, of the military material. In last year's hearing you stated that in February of 1992 GSA had about $26 million in excess inventory. That was already subsequent to the war in the Persian Gulf. What is the excess inventory now?

Mr. DANIERO. We actually excessed about $5 million worth of inventory last year, which was in the category of what we call shelf life material. In other words, certain types of chemicals, sealants. We buy virtually all the sealants, whether it is for helicopters or canopies on jet aircraft or whatever, gas tank sealants, very sophisticated type sealants and adhesives, as well as the common everyday Elmer's Glue. This past year we did actually excess about $5 million worth of what we call shelf life commodities.

In other words, the shelf life had expired and we couldn't use them.

Mr. VISCLOSKY. So in addition to the $26——

Mr. DANIERO. That was part of that $26.

Mr. VISCLOSKY. I don't understand. The question I have is, what is the excess level today? You said in February of 1992 it was $26 million.

Mr. DANIERO. It is about $20—we have about $20 million.

Mr. HOYER. Let me tell you what we are going to do. Mr. Visclosky is going to finish his line of questioning and then he will go vote. As soon as he returns, he will chair the balance of the hearing. I apologize. I have another committee meeting at 11:15.

Mr. VISCLOSKY. What is the level today?

Mr. DANIERO. We have—we don't call it excess. I don't call it excess. We have about $20 million in what we call long supply. In other words, we have an economic retention formula we use that says how long—how much supply we should have on hand that is

economical to hold. In certain instances, like with the buildup on the sandbags and so forth, we may have a supply that will take us three or four years to work down. It will eventually sell. So we don't term it excess in that sense.

Mr. VISCLOSKY. So when you mentioned $20 million of long supply today, the long supply is not synonymous with excess?

Mr. DANIERO. Right.

Mr. VISCLOSKY. Setting the $20 million aside, what is your excess inventory level today?

Mr. YONKLER. The term that we used in last year's hearing, excess, has a specific meaning. What we meant last year is that we had $26 million of items that were in excess of our current requirements. Of that $26 million, $5 million, $5.1 million we wrote off the books and we got rid of because the shelf life expired on it and it was no longer of any value.

Mr. DANIERO. It was truly excess material.

Mr. YONKLER. Of the remainder, we sold about $1 million of those long supply items and we have approximately $20 million left of that which we are considering long supply. Excess means that it has no value to the government.

Mr. VISCLOSKY. So what you are saying is when you used the term long supply, you are saying that is synonymous with excess inventory.

Mr. YONKLER. It is synonymous with the way we used it last year for this hearing.

Mr. VISCLOSKY. So now we are talking about the same thing, and you are saying in answer to my question that it is $19.9 million.

Mr. YONKLER. Approximately. We had $26 million. We sold $1 million. We wrote off $5.1 million.

Mr. VISCLOSKY. It is $19.9.

Mr. YONKLER. Right.

Mr. VISCLOSKY. In January of 1992 you said that you planned to bring the inventory—you would bring the inventory back to planned levels by June. When you used the term planned inventory in February of 1992, what did you mean and what was the level that you were looking for by June?

Mr. YONKLER. The plan—we had a planned inventory level each month of the year. We have peak buying periods. We want the inventory built up prior to that so that we can meet customer demand.

Mr. VISCLOSKY. Let me talk about June as a specific.

Mr. YONKLER. Let me tell you that right now our inventory is $240 million. When we last spoke to you it was in excess of $300 million. The inventory is brought down and we are currently $10 million below our planned inventory level for this month, right now. We went way over before. We are now slightly under, and——

Mr. DANIERO. In combination with the changing of the fill rate and other things that we talked with the Committee last year about, we have lowered our safety stock levels. We have driven our inventory down so that we were well over $300 million in inventory last year when we were talking. We are now under $240 million dollars today.

Mr. VISCLOSKY. So your inventories are lower today.

Mr. DANIERO. Right.

Mr. YONKLER. Considerably lower and they are even lower than our current planned level.

Mr. VISCLOSKY. I have one final question on this issue, then I will go vote. What are the major items that now comprise the excess inventory and what is your sense for its future, the $19.9 excess?

Mr. DANIERO. We can give you a complete detail for the record.

Mr. VISCLOSKY. That would be good, thank you.

[The information follows:]

Federal Supply Service February 1993 excess inventory level is $20.4 million (about 8 percent of total inventory of $246.9 million), a reduction of $5.6 million in the last year. In general, excess inventory is a by-product of any supply system. Regarding the Federal Supply Service, factors leading toward excess are: demand fluctuations; addition of new items and corresponding termination of old ones; forced production run procurements wherein the actual requirement is far beneath minimum production requirements of industry for a particular product; and the fact that economic retention levels tend to be somewhat higher for the Government than private industry when overall costs to the taxpayer are considered.

The following 3 items account for $12.1 million, over one half, of FSS's excess:

	Million
Sandbags,	[1] $54
TacFire Paper (Artillery Targeting Computer Paper)	[1] 3.3
VA Bed Blankets	[2] 3.4

[1] Residual stock resulting from overstated requirements by DoD in support of Desert Shield/Storm.

[2] Ordered to VA specifications. Subcontractor fraudulently certified performance characteristics of the items, thereby rendering them unacceptable to VA. VA requirements have since changed. VA committed to purchasing September 1992. To date virtually no VA orders received.

Mr. DANIERO. I think about $5 million alone, for example, is the sandbags. Entrenching tools, some of the TAC fire paper and so forth. It was a great—I am going from memory here, but I think a great deal of it was left over from our buildup from Desert Storm.

Mr. VISCLOSKY. Thank you, Mr. Chairman.

Mr. HOYER. Mr. Wolf.

NATIONAL SCIENCE FOUNDATION TABLE PROCUREMENT

Mr. WOLF. Thank you, Mr. Chairman. I have some questions and I am going to be with Mr. Michel when they go through the schedule so I might come back, but let me cover the first segment. It is about the National Science Foundation, it is a little bit different than the building itself. We had heard that the director——

Mr. HOYER. The gentleman knows that I asked the question yesterday. Make sure the gentleman knows that.

Mr. WOLF. Yes, I did. And this is to follow up a little bit on it. The director of the National Science Foundation, who has since resigned, we were told went out and purchased a very expensive table and then blocked traffic in front of the National Science Foundation for about three hours to bring the table up, took the window out, took the marble table in, then found that there was a nick and didn't like it, then took the window out, took the table back out.

Do you know if that is accurate and if it is, could you find out what whether that went through the bidding process, is the table being now moved to Arlington or just where are we? Do you have any information on that?

Mr. EARLY. We can check on that, get back to you.

Mr. WOLF. Do you know anything about that?

Mr. YONKLER. I really don't know. But I would speculate it was not our procurement.

Mr. DANIERO. Normally we do not purchase tables of marble so——

Mr. WOLF. How can he have done that without the authority of the GSA?

Mr. DANIERO. He could have determined that we didn't have an item that would meet his needs perhaps.

Mr. WOLF. Well, if you could tell us, was your agency involved in the construction and the delivery? Do you know how much the conference table cost to be built? Is it unusual for the agency to have a special order like this, and if I could get the cost of what the table cost, and also what it cost, if we could get the bill for the delivery of the table and if the table was taken back out?

Mr. EARLY. We can get that for you.

[The information follows:]

NATIONAL SCIENCE FOUNDATION TABLE PROCUREMENT

The General Services Administration contracts for conference tables under our multiple award schedules program, FSC Group 71, Part X, Miscellaneous Furniture Conference Room Tables. Various sizes and types of conference tables are available under this schedule; however, glass, high cost wood grain patterns/inlays, and marble top tables are not permitted under the schedule. The schedules program provides for the selectivity that permits Federal agencies to order from a range of products that meet their particular needs. Contracts are negotiated and awarded competitively.

Agencies place orders directly with the schedule contractor offering the lowest delivered price available. The ordering agency is required to justify in their contract file any orders over $2,500 per line item placed at other than the lowest price. In the case of the National Science Foundation (NSF), an order was placed directly with a GSA schedule contractor (Charles G. Stott and Company, Inc., 9301 Largo Drive, W. Landover, MD 20785). Stott and Company is a small business dealer offering the products of Vector, Inc. NSF ordered Model 652907 veneer-straight grain, convex solid wood edge at a cost of $3,151.01. It appears that the conference table purchased by NSF is within the price range of comparable tables available from other vendors under the schedule. ((Ex. M.S. Ginn (Hardwood Visuals) Model WT6012 at a cost of $3,290; Krug, Inc., Model 5002-KK1-54 at a cost of $2,552; and Charles Stott, Model 450BVN at a cost of $3,117.96.)

The conference table was delivered to the NSF, FOB destination and the agency independently arranged for the installation of the table. Since all arrangements for installation were made by NSF, GSA is not aware of whether traffic was blocked during the installation. In regards to the minor surface blemish on the tables, GSA has been advised that repairs were made on-site during a weekend at no cost to NSF.

Mr. WOLF. The other area is prisons. We have spoken about this before.

Mr. DANIERO. Yes.

LEGISLATION FOR FEDERAL PRISON GOODS

Mr. WOLF. I have a bill in which, which has been endorsed by most of the State directors, to develop a system in the Federal prisons whereby the prisons will make the goods that you need that are not made in the United States. Have you done anything? Have you taken a look at the bill or have you talked to the Bureau of Prisons on this or has anything happened since last year?

Mr. DANIERO. As a matter of fact, I was talking to Rick Sider just yesterday in my office about a number of things and he spent

about two hours with the Federal Supply Service discussing this whole area in general, and I do remember the discussion of trying to create jobs here in this country, look for items that are overseas items that they could make in the prisons and so forth.

I can't give you off the top of my head, but I can give you—for the record, I can give you a——

Mr. WOLF. Well, would you look at the bill that I have now? It ought not offend the unions, it ought not offend anyone. It saves money. It is rehabilitation for the prisoners and we really need GSA and the Bureau of Prisons to kind of catch the vision to get involved.

If you say you are excited about it, I think that might help us.

Mr. DANIERO. I think we have been having problems trying to find the type of items that might be—have been manufactured offshore that they could get involved in the prisons, but I think there are some that have been identified.

Mr. WOLF. Let me just maybe ask one last series because—how much time do we have left to vote?

Mr. HOYER. I think we probably have about six or seven minutes left.

FEDERALLY OWNED AIRCRAFT

Mr. WOLF. The question has come up with regard to aircraft. There was a GAO testimony before the Senate committee that there were 100 federally owned aircraft used primarily for passenger transportation. Could you provide a list of all the federally available aircraft that are maintained by GSA, the primary purpose, and who is eligible to use them and how they are eligible to use them?

Mr. DANIERO. We do have a Federal aircraft management information system. Now that we are under the OMB Circular A–126, agencies are required to report to us certain types of aircraft that are used and so forth. We just issued the report that we gathered for fiscal year 1991. We are working on 1992 now, so we can't provide that.

Mr. EARLY. GSA has none of its own. We have no aircraft.

Mr. WOLF. Can you tell me how many were purchased from foreign manufacturers, and if there were any, why were there any?

Mr. DANIERO. I don't know, but I am sure if we looked at the list we could tell by the type of aircraft it is.

Mr. WOLF. So you will be able to tell me if there were any purchased by foreign governments? Can you tell me what agencies have asked for the aircraft and didn't receive them and why their requests were denied? Do they ask you if they want to purchase?

Mr. DANIERO. No.

Mr. WOLF. How do they do that?

Mr. EARLY. They would be—we provide the information. Agencies, we hope, use that information to see that different agencies have an aircraft and then they are supposed to deal with those agencies direct to find out whether they can use them or get on board a flight schedule.

I am not sure whether the data is collected at the time they are turned down, but they don't go through us for that.

Mr. DANIERO. Other than through Circular A–126 and their budget process——

Mr. WOLF. So no one in the government knows who is using these aircraft other than the individual agency?

Mr. DANIERO. We are trying now to gather that kind of information as to how the aircraft is used, what type of travel it is, whether it is interstate travel, mission travel, so on and so forth. We are gathering that information, but agencies are not required to get permission from us to buy an aircraft, GSA, whether it is Customs Service or whoever it is. They have—they have their own authorities to buy aircraft based on what——

Mr. WOLF. So there isn't one central location with regard to the management of aircraft for the government?

Mr. DANIERO. Management only in a sense that we are trying to get into the position of providing OMB the information and the data by which they can question under A–76 and other kinds of provisions why do you own the aircraft versus using commercial services or charters or whatever.

Mr. WOLF. Are there standard rules as to who flies the aircraft, what Federal employee would fly on the aircraft, what Federal employee would not?

Mr. DANIERO. Well, some of the rules I think that came with the President's memorandums that he issued the other day will be changing previous rules as to who can and who can't fly on the aircraft.

Mr. HOYER. Two minutes to vote. Let me say, that I will review your testimony. I apologize for having to leave but I have another meeting. Mr. Visclosky will chair.

INVENTORY MANAGEMENT

Mr. VISCLOSKY [presiding]. Mr. Olver.

Mr. OLVER. Thank you very much, Mr. Chairman. I hoped that there was going to be some final settlement of the confusion on inventories, excess and long supplies are current, but I am going to have to have a question then. The understanding that I was coming to, that the definitions you are using now, which may not have been what you used previously, was that excess was stuff whose shelf life was gone, no longer of value, it was being disposed of essentially, thrown away, that—well, somebody might have some value, but I don't know that——

Mr. DANIERO. There might be some paint or something that somebody could use.

Mr. OLVER. That long supply were items that we had something beyond current requirements. How does one define current requirements? There would be, I take it a variation between what current requirement is from item-to-item, or is current requirement this year's items, items that would be needed this year, whereas long supply is something that we have supplies for several years but it still has a shelf life and is worth keeping? Bring that closer for me.

Mr. DANIERO. Basically we are trying to operate like a business in a sense that we want to manage our inventory in such a fashion so that based on the demand, historical demand of the agencies, they order 10,000 of these a month, 20 now of these a month, or

two a month. We try to gear our inventory to what that expected demand is.

Mr. OLVER. So high volume items would have shorter current inventory, shorter current time frame, low volume items might have a longer current need period.

Mr. DANIERO. The faster moving items obviously is——

Mr. OLVER. What is the inventory on fast moving items? What is the current supply definition for high volume, fast moving items? I am trying to get a sense of what this stock piling period might be for fast moving items.

Mr. DANIERO. Paper, for example, or those kinds of common use office supplies, probably we would turn—five or six times a year we completely turn the inventory.

Mr. OLVER. So does that mean you wouldn't have on hand more than a couple months' supply at any time for fast

items.

Mr. DANIERO. Generally speaking, right.

Mr. OLVER. And I suppose that this depends in part upon whether the bulk purchasing reduces the price versus the cost of stockpiling and so forth.

Mr. DANIERO. That is correct. There are opportunity buys from time to time.

Mr. OLVER. Can you give me a sense what the difference is between the Federal supply schedules program and the stock and special order program? There is a couple billion dollars in each. I am not sure that there is any difference in the items that are there. What is the difference between those programs?

Mr. DANIERO. Well, there is a significant difference in the items in the sense that our schedule program is by and large for equipment, a large amount of equipment, durable goods, or items in which there is such a diversity of use and application in the government that is almost impossible to write a specification or to make a purchase from a single vendor for single models or single types of items.

Mr. OLVER. This is the Federal supply schedule's program is the equipment and durable goods?

Mr. DANIERO. Yes.

Mr. OLVER. I guess you were getting at—I underlined the negotiated with multiple firms. What does that mean?

Mr. DANIERO. For example, in the scientific equipment area, we may negotiate with a number of firms who produce test equipment for hospitals or Public Health Service or NIH, and they have—we would negotiate with these firms for all different kinds of testing equipment, issuing solicitations to get the government discounts from what their price lists are to enable the Federal agencies to be able to buy at a discount.

Mr. OLVER. Then it is not items that perform the same purpose.

Mr. DANIERO. No. No.

Mr. OLVER. But rather a variety of scientific items where you see what each of several different firms can provide and you have a kind of a complicated reiteration negotiation process going on?

Mr. DANIERO. Yes. Typically what a customer would do is go to one of our schedules and let's say he wanted to buy an oscilloscope. He would look at oscilloscopes on the schedule from electronic

firms, like Hewlett Packard and other firms, and try to find the one that matches his requirement and at the best price for him based on what he is looking for.

So it is kind of like going through perhaps a Sears catalog or a Best catalog where you see a number of different brands. They have different features and they are at different prices and you pay for what you need. You may have a model that is $100, one that is $300 and one that is $1,000. You kind of shop and buy the one you need to fit your particular application.

Mr. OLVER. Well, you will confuse me more than I need to be, but let me go back to the other one. If you buy a lot of consumer plastics, that would come under the stock special order. If you were to buy plastic flatware by the tons for all the various places where there were dining rooms and so forth, cafeterias and so forth in the Federal area——

Mr. DANIERO. That would be special order or stock.

Mr. OLVER. How does that get contracted?

Mr. DANIERO. If it is a special order, what we do is we establish a contract with a vendor. The orders are placed with us. We place them against the vendor and he direct ships to the agency.

Mr. OLVER. Is that generally advertised? Are stock items, major stock items generally advertised so that all potential——

Mr. DANIERO. Yes. We have a stock catalog and all of our items in our stock and special order programs have national stock numbers and they are ordered by stock number and they are identified to our customers——

Mr. OLVER. What would you do if you needed 1,000 flashlights where flashlights have parts that come together from a number of different places? Do you do contract or bid process with people who can provide flashlights and let them deal with whatever the subcontracting may be?

Mr. DANIERO. That is correct.

DESERT STORM EXCESS

Mr. OLVER. I am curious about the Desert Storm issue. I notice in your testimony there is quite a pile of excess food and related items. Were those items that had actually gotten over to the Gulf?

Mr. DANIERO. If you saw some of the footage on television with those miles and miles of trailers sitting in the desert, a great deal of that was food.

Mr. OLVER. Okay. Was that shipped there by American flag carriers?

Mr. DANIERO. I couldn't answer that. You know, when they were having that build up, I am sure they used every means possible to get it over there.

Mr. OLVER. So you are not responsible for the shipping.

Mr. DANIERO. No, that was DOD.

Mr. OLVER. The procurement.

Mr. DANIERO. We were not even responsible for the procurement of the food. We were responsible for the disposal. When the war was over, they said, GSA, can you help us dispose of this food and get it to the—let's share back to the American taxpayer who paid for it and——

Mr. OLVER. At what point do you get back in? Did you ship it back, were you in charge of shipping it back or was it then shipped back under American flags?

Mr. DANIERO. They shipped it back.

Mr. OLVER. They shipped it back, they, the Department of Defense?

Mr. DANIERO. And we took over at the ports as it came back.

Mr. OLVER. And then we shipped it back to Somalia.

Mr. DANIERO. That $270 million worth of food was distributed all across this country to every State in the country, and I am talking everything from flour to meals ready-to-eat and——

Mr. OLVER. Well, I see it came back here, but at the same time, we probably had humanitarian aid, food aid going to a variety of places. Maybe we don't. I don't know.

Mr. DANIERO. Some of it was. They did provide some of the food. All of it was not shipped back. Some of it was supplied to some other countries, whether Somalia was one of them or not, I don't know. I know they did supply some of the food from the Desert Storm to a number of those countries in their humanitarian assistance program, but they also brought at least $270 million back here.

GOVERNMENT TRAVEL

Mr. OLVER. I will have to ask the Defense people whether the shipping in both cases is done on an American Merchant Marine or whatever.

Let me ask you about something on the government travel here. This gets down close and personal. When I am on government rate travel to Hartford, the capital of Connecticut, Bradley International Airport, it would appear to cost $200 government rate. If I travel to Boston, a little bit farther, it appears to be $70 government rate. Now, are we—are the rates that you—and I take it it must be something that is part of your GSA procurement contracts here, are we for our government procurement in cases like that limited to some formula relationship to whatever is the hodgepodge of commercial rates that is out there presently?

I mean, I take it that there is something related here because there may be six airlines that fly into Boston, but only two or something that fly into Hartford, even though it is shorter distance, and certainly significant economic—an economic center in Hartford as well as in Boston and so forth. I am curious why we wouldn't have a more rational pricing, what seems to me, my definition of rational pricing is because it is costing some of us a lot of money.

Mr. DANIERO. I think you have found the same thing true looking at their commercial rates for some of the different cities and places, it seems in some cases not a rational reason why the cost——

Mr. OLVER. But is the government rate tied to the commercial rate? Must it be?

Mr. DANIERO. We do a competitive bid. What we do is we put out a solicitation and we identify over 4,000 city pairs. What we mean by city pairs is Washington, D.C. to Boston, Washington to New York, Washington to Hartford, New York to Chicago. We identify,

based on input we have gotten from the Federal agencies on what cities we need to try to cover that are most frequently traveled and so forth, we go out and we make a competitive contract. The airlines bid on those particular routes.

Mr. OLVER. Does that mean the government rate to each city is different by airline?

Mr. DANIERO. Basically we get the lowest rate to that city, generally speaking, of any airline's offering. What frequently happens is after our award is made, other airlines who operate that route will do what we call a "me too" fare to match it.

Mr. OLVER. Once the bid to that—to a particular location is set by bidding, the others will——

Mr. DANIERO. Match it because they obviously recognize——

Mr. EARLY. The private sector is setting it. We do a commercial contract with them. For example, there is a city pair from Washington to San Francisco. There is a nonstop flight. There is a city pair to San Francisco that is a one-stop flight. And they are two different pairs based upon what we were able to get the market to respond to us. They recognize the demand structure and the price for the nonstop is higher than our city pair for the one stop.

MOTOR VEHICLES

Mr. OLVER. Let me ask just a couple things about the vehicle lease. The 134,000 vehicles seem to be the lease arrangement I take it. Is that correct? How many do we own and how many do we lease?

Mr. DANIERO. The majority of that 134,000 we own. I think we lease about 20,000 of those.

Mr. OLVER. And the ownership, the purchase is a $7,000 item roughly?

Mr. DANIERO. Roughly.

Mr. YONKLER. That refers to sedan. We also have buses in there that are extremely higher.

Mr. OLVER. Let me talk about the sedans so that we have got some more vehicles in place. Roughly $7,000 is the compact sedan purchase rate, bulk.

Mr. DANIERO. Price or claim——

Mr. OLVER. Do we maintain all those? Once purchased, I take it we run the maintenance on them.

Mr. EARLY. That is correct, but they are under the warranty so we don't have our own in-house maintenance facilities to do that.

Mr. OLVER. And then for the leased items, if I read your data, $136 a month, three-year, and—or 60,000 miles, but the lessor gets the mileage—the mileage add here, the 10 cents a mile?

Mr. DANIERO. I think when mentioning the lease, whether we buy new or lease from the manufacturer ourselves, we are like a business. We are like Jelco or someone like that who is in the leasing business, and what we do is we buy our leased vehicles from the manufacturer. We then, based on our demand from agencies, lease it to Federal agencies who have need for a vehicle. We charge those agencies $136 a month and 10.5 cents a mile for that compact sedan, for example. That includes the vehicle, maintenance, repair, fuel——

MAINTENANCE AND REPAIRS

Mr. OLVER. Who does the maintenance on those—I see. The numbers of $136 and 10 cents a mile is your sublease.

Mr. DANIERO. To the agency.

Mr. OLVER. To the Federal agency.

Mr. DANIERO. Right.

Mr. OLVER. Who does the maintenance on those? I see, these are purchased vehicles that then you lease within the agencies? All the dealings within the agencies are by lease within the agencies, by GSA to the agency?

Mr. DANIERO. Those who participate with our interagency fleet management system—again, all agencies don't use us, but those that do, for 134,000 vehicles that we provide, they pay us a lease rate plus the cost per mile and we have—we totally take care of the vehicle. We deliver it to them, we have a computer system that is set up. We tell them when it is ready for an oil change, routine maintenance, whatever.

When it needs repair, we have contracts with 40,000 small businesses all across the country. We don't run any of our repair garages. We got out of the business a long time ago.

VEHICLE LEASING

Mr. OLVER. What is the average mileage at the end of three years of the vehicles that you have been leasing out to your agencies?

Mr. DANIERO. I think they generally average about 12,000, 12,000 to 13,000 a year on the vehicles.

Mr. OLVER. So it might be on average 40,000 miles.

Mr. DANIERO. 30,000 to 40,000 miles on a vehicle when we are ready to dispose of it.

Mr. OLVER. So—but in totaling that up, you have purchased the vehicle at $7,000, you have leased it at $5,000 over a 36-month period, it comes out to virtually $5,000 and you have gotten the 40,000 miles at 10 cents a mile roughly as part of the lease process, so you have gotten back $9,000 from the agency on average, and the other $2,000 is the service fee and the maintenance fee because they——

Mr. YONKLER. And gasoline.

Mr. DANIERO. And gasoline.

Mr. OLVER. You pay the gasoline. GSA pays the gasoline, not the agency.

Mr. DANIERO. It is in that rate. It is part of the rate. They have a credit card, a U.S. Government credit card, that is part of our system and they fill up on that credit card. The bill comes to us. We pay the bill, and that is included in their $136 month, 10.5 cents a mile.

Mr. OLVER. I will have to think about that balance sheet. Now I don't understand the balance sheet. The balance sheet now suddenly is tipped rather badly in the wrong direction it seems to me.

Mr. YONKLER. Then we sell the car.

Mr. DANIERO. Bottom line is, after all this, for 134,000 vehicles, last year our profit was——

Mr. YONKLER. $7.2 million.

Mr. DANIERO. Out of——

Mr. YONKLER. $600 million.

Mr. DANIERO. We try to break even, but it is awful difficult to hit right, right even. Things change. Fuel price goes down or a fuel price goes up.

Mr. YONKLER. To get your balance sheet back in order, the portion that you did not include in your figures is the value of the car upon disposal. So we sell the car for $3,500.

Mr. OLVER. This is the balance sheet which, from the testimony, it wasn't clear to me exactly what the procedure was that you were talking about, and what is the price of leasing? If you have got 134,000, most of which have been purchased, what about those that you have leased from the automotive supplier.

Mr. YONKLER. When we lease the vehicle, the manufacturer gives us the vehicle at the same price as purchase. The only difference is the manufacturer's cost of money.

Mr. OLVER. What does that mean?

Mr. YONKLER. If we want to buy a vehicle and the vehicle is being offered by Chrysler to us for $7,000, we go out with a separate solicitation and say that we would like to lease that vehicle. They are giving us that vehicle for $7,000 plus the interest on that $7,000.

Mr. OLVER. What is the lease price on that car? They give you two, one is the purchase price, one is the lease price. What is the lease price on that?

Mr. YONKLER. The way it is done now is that they break the lease price into two components, the actual cost of recovering the capital asset value and the cost that you have to pay for borrowing money.

Mr. OLVER. If I could go tomorrow—just maybe you can tell me. If I could go tomorrow—maybe we should do this another time.

Mr. DANIERO. I think what you are looking for is that if we purchase an automobile from the manufacturer with a cost of $7,000, if we leased it from the manufacturer, it may cost us $8,000, and the difference is interest on the money because we are not paying him $7,000 up front to purchase the vehicle.

Mr. OLVER. When you get done, you give it back to them.

Mr. DANIERO. No, when we get it done, we sell it.

Mr. OLVER. At the end of that lease, it doesn't go back to them if you lease it?

Mr. YONKLER. We exercise a right to be the agent of the manufacturer in the disposal of the vehicle. They don't want the vehicle back. We prefer to sell it rather than have them dump it because we get a better price for a government vehicle. You get a very good price for government-used vehicles because we almost guarantee that it has been maintained to the standards of the vehicle over the course of its life.

So our resale values generally exceed the book value when it is a government vehicle.

Mr. OLVER. Would you, since I sat through this kind of thing, as decisions were made in my State to go very substantially to leasing and it kind of goes in the opposite direction of what Mr. Lightfoot was talking about earlier, I guess—I guess I would like to see the balance sheet.

There must be a document that explains what is here shown in a paragraph what would show the balance sheet of how these things function, okay? Is that a reasonable request?

Mr. DANIERO. Sure.

Mr. OLVER. Thank you.

Mr. DANIERO. We will provide you with a detailed Financial plan for the IFMS.

[The information follows:]

COST ELEMENT DESCRIPTION		OCT 22	NOV 21	DEC 23	JAN 21	FEB 20	MAR 23	APR 22	MAY 21	JUN 22	JUL 22	AUG 22	SEP 22	TOTAL 261
INTERAGENCY FLEET MANAGEMENT SYSTEM (GSF455X).							($000)							
IFMS TOTAL SALES	(P)	43,840.0	42,723.7	42,360.3	41,063.3	41,770.1	43,404.4	45,364.0	47,008.3	47,202.2	46,493.3	45,650.2	45,733.5	532,613.3
Actual Sales	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Variance	+/(-)	(43,840.0)	(42,723.7)	(42,360.3)	(41,063.3)	(41,770.1)	(43,404.4)	(45,364.0)	(47,008.3)	(47,202.2)	(46,493.3)	(45,650.2)	(45,733.5)	(532,613.3)
Percent	+/(-)	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%
GROSS OPER MARGIN	(P)	43,840.0	42,723.7	42,360.3	41,063.3	41,770.1	43,404.4	45,364.0	47,008.3	47,202.2	46,493.3	45,650.2	45,733.5	532,613.3
Actual Gross Margn	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Opering Exps.	(P)	42,035.0	41,471.6	41,872.0	41,090.6	42,305.5	44,337.9	45,803.0	47,611.7	45,585.7	46,615.6	47,333.2	46,551.5	532,613.3
Undistributed -GSF	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Variance	+/(-)	(42,035.0)	(41,471.6)	(41,872.0)	(41,090.6)	(42,305.5)	(44,337.9)	(45,803.0)	(47,611.7)	(45,585.7)	(46,615.6)	(47,333.2)	(46,551.5)	(532,613.3)
Percent	+/(-)	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%
TOTAL COST OF OPERATIONS-CY	(P)	42,035.0	41,471.6	41,872.0	41,090.6	42,305.5	44,337.9	45,803.0	47,611.7	45,585.7	46,615.6	47,333.2	46,551.5	532,613.3
	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Variance	+/(-)	(42,035.0)	(41,471.6)	(41,872.0)	(41,090.6)	(42,305.5)	(44,337.9)	(45,803.0)	(47,611.7)	(45,585.7)	(46,615.6)	(47,333.2)	(46,551.5)	(532,613.3)
Percent	+/(-)	100.0%	100.0%	100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%
NET OPERAT MARGIN	(P)	1,805.0	1,252.1	488.3	(27.3)	(535.4)	(933.5)	(439.0)	(603.4)	1,616.5	(122.3)	(1,683.0)	(818.0)	0.0
Actual Net Margin	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Prior-Yr Adjustals	(P)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Actual Adjustals	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IFMS PROFIT/(LOSS)	(P)	1,805.0	1,252.1	488.3	(27.3)	(535.4)	(933.5)	(439.0)	(603.4)	1,616.5	(122.3)	(1,683.0)	(818.0)	0.0
Actual P/(L)	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

COST ELEMENT / DESCRIPTION		OCT 22	NOV 43	DEC 66	JAN 87	FEB 107	MAR 130	APR 152	MAY 173	JUN 195	JUL 217	AUG 239	SEP 261	TOTAL 261
INTERAGENCY FLEET MANAGEMENT SYSTEM (GSF455X):							($000)							
IFMS TOTAL SALES	(P)	43,840.0	86,563.7	128,924.0	169,987.3	211,757.4	255,161.8	300,525.8	347,534.1	394,736.3	441,229.6	486,879.8	532,613.3	522,613.3
Actual Sales	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Variance	+/(-)	(43,840.0)	(86,563.7)	(128,924.0)	(169,987.3)	(211,757.4)	(255,161.8)	(300,525.8)	(347,534.1)	(394,736.3)	(441,229.6)	(486,879.8)	(532,613.3)	(532,613.3)
Percent	+/(-)	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%
GROSS OPER. MARGIN	(P)	43,840.0	86,563.7	128,924.0	169,987.3	211,757.4	255,161.8	300,525.8	347,534.1	394,736.3	441,229.6	486,879.8	532,613.3	522,613.3
Actual Gross Margn	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Operlng Exps.	(P)	42,035.0	83,506.6	125,378.6	166,469.2	208,774.7	253,112.6	298,915.6	346,527.3	392,113.0	438,728.6	486,061.8	532,613.3	532,613.3
Undistributed -GSF	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Variance	+/(-)	(42,035.0)	(83,506.6)	(125,378.6)	(166,469.2)	(208,774.7)	(253,112.6)	(298,915.6)	(346,527.3)	(392,113.0)	(438,728.6)	(486,061.8)	(532,613.3)	(532,613.3)
Percent	+/(-)	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%
TOTAL COST OF	(P)	42,035.0	83,506.6	125,378.6	166,469.2	208,774.7	253,112.6	298,915.6	346,527.3	392,113.0	438,728.6	486,061.8	532,613.3	532,613.3
OPERATIONS-CY	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Variance	+/(-)	(42,035.0)	(83,506.6)	(125,378.6)	(166,469.2)	(208,774.7)	(253,112.6)	(298,915.6)	(346,527.3)	(392,113.0)	(438,728.6)	(486,061.8)	(532,613.3)	(532,613.3)
Percent	+/(-)	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%
NET OPERAT. MARGIN	(P)	1,805.0	3,057.1	3,545.4	3,518.1	2,982.7	2,049.2	1,610.2	1,006.8	2,623.3	2,501.0	818.0	0.0	0.0
Actual Net Margin	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Prior-Yr Adjustmts	(P)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Actual Adjustmts	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IFMS PROFIT/(LOSS)	(P)	1,805.0	3,057.1	3,545.4	3,518.1	2,982.7	2,049.2	1,610.2	1,006.8	2,623.3	2,501.0	818.0	0.0	0.0
Actual P/(L)	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

MONTHLY PROJECTION NATIONWIDE - FY 1993

GSF 455X, INTERAGENCY FLEET MANAGEMENT SYSTEM - IFMS COST PROJECTION SUMMARY

COST ELEMENT DESCRIPTION		OCT 22	NOV 2.	DEC 23	JAN 21	FEB 20	MAR 23	APR 22	MAY 2.	JUN 22	JUL 22	AUG 23	SEP 21	TOTAL 263
Sales - Rates	(P)	42,703.3	4..587.0	41,223.6	39,926.6	40,633.4	42,267.7	44,027.2	45,871.5	46,265.4	45,356.5	44,567.2	44,596.6	518,972.
	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0	0	0	0	0	0.0
Supplemental Income	(P)	1,134.7	1,134.7	1,134.7	1,134.7	1,134.7	1,134.7	1,134.8	1,134.8	1134.8	1134.8	1,134.8	1134.8	13,616.1
	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous Income	(P)	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	24.0
	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IFMS TOTAL	(P)	43,840.0	42,723.3	42,360.3	41,063.3	41,770.1	43,404.4	45,164.0	47,008.3	47,402.2	46,493.3	45,704.0	45,733.5	532,613.3
SALES	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Variance	+/(-)	(43,840.0)	(42,723.3)	(42,360.3)	(41,063.3)	(41,770.1)	(43,404.4)	(45,164.0)	(47,008.3)	(47,402.2)	(46,493.3)	(45,704.0)	(45,733.5)	(532,613.3)
Percent	+/(-)	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%
TOTAL ALLOWANCE	(P)	20,018.0	19,039.0	19,146.6	18,344.7	19,393.5	20,376.6	21,568.4	23,439.9	21,413.9	22,930.8	22,617.2	22,618.3	252,101.9
EXPENSE	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Variance	+/(-)	(20,018.0)	(19,039.0)	(19,146.6)	(18,344.7)	(19,393.5)	(20,376.6)	(21,568.4)	(23,439.9)	(21,413.9)	(22,930.8)	(22,617.2)	(22,618.3)	(252,101.9)
Percent	+/(-)	100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%
TOTAL OTHER	(P)	22,017.0	22,432.6	22,725.4	22,745.9	22,912.0	23,961.3	24,234.6	24,171.8	24,171.8	23,684.8	23,716.0	23,738.2	280,511.4
EXPENSE	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Variance	+/(-)	(22,017.0)	(22,432.6)	(22,725.4)	(22,745.9)	(22,912.0)	(23,961.3)	(24,234.6)	(24,171.8)	(24,171.8)	(23,684.8)	(23,716.0)	(23,738.2)	(280,511.4)
Percent	+/(-)	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%
TOTAL OPERATING	(P)	42,035.0	41,471.6	41,872.0	41,090.6	42,305.5	44,337.9	45,803.0	47,611.7	45,585.7	46,615.6	46,333.2	46,356.5	532,613.3
EXPENSE	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Variance	+/(-)	(42,035.0)	(41,471.6)	(41,872.0)	(41,090.6)	(42,305.5)	(44,337.9)	(45,803.0)	(47,611.7)	(45,585.7)	(46,615.6)	(46,333.2)	(46,356.5)	(532,613.3)
Percent	+/(-)	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%
TOTAL PROFIT/LOSS	(P)	1,805.0	1,252.1	488.3	(27.3)	(535.4)	(933.5)	(639.0)	(603.4)	1,816.5	122.5)	(1,683.0)	818.0	0.0
	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Variance	+/(-)	(1,805.0)	(1,252.1)	(488.3)	27.3	535.4	933.5	639.0	603.4	(1,816.5)	122.5	1,683.0	818.0	0.0
Percent	+/(-)	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%

IFMS VEHICLE SALES SUMMARY.

Vehicle Sales	(P)	9,200.0	10,116.0	5,494.0	189.0	284.0	809.0	13,639.0	19,779.0	20,497.0	22,552.0	21,395.0	1,615.0	135,569.0
	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Book Value	(P)	9,201.0	10,118.0	5,499.0	199.0	299.0	1,053.0	13,881.0	20,045.0	30,676.0	22,987.0	21,911.0	1,986.0	137,950.0
	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(Profit)/Loss	(P)	1.0	2.0	5.0	10.0	15.0	244.0	242.0	266.0	179.6	435.0	516.0	371.0	2,281.0
	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

MONTHLY PROJECTION NATIONWIDE - FY 1993 GSF 455X, INTERAGENCY FLEET MANAGEMENT SYSTEM - IFMS COST PROJECTION SUMMARY

COST ELEMENT DESCRIPTION		OCT 22	NOV 21	DEC 23	JAN 21	FEB 20	MAR 23	APR 22	MAY 21	JUN 22	JUL 22	AUG 22	SEP 22	TOTAL 264
Parts & Supplies	(P)	5,993.4	5,393.4	5,636.3	5,214.7	5,313.4	6,249.2	6,212.4	6,164.3	6,417.9	6,414.8	6,535.0	6,262.4	71,807.2
Contractual Services	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tools,Materials, and Supplies	(P)	40.3	40.4	40.3	40.4	40.3	40.4	40.3	40.4	40.3	40.4	40.3	40.4	484.2
	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Petroleum Products	(P)	7,493.4	6,874.5	6,871.1	6,747.8	7,912.1	7,495.4	8,319.1	8,461.6	7,315.7	8,858.2	8,915.6	9,126.6	94,391.1
	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Variance	+/(-)	(7,493.4)	(6,874.5)	(6,871.1)	(6,747.8)	(7,912.1)	(7,495.4)	(8,319.1)	(8,461.6)	(7,315.7)	(8,858.2)	(8,915.6)	(9,126.6)	(94,391.1)
Percent	+/(-)	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%
Office Supplies, Comm.,Rent, Etc	(P)	245.7	195.7	218.6	287.4	241.7	243.9	222.5	235.6	282.8	260.7	295.5	451.5	3,281.6
	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Accident Damage	(P)	(178.4)	(178.4)	(178.4)	(178.4)	(178.4)	(178.5)	(178.5)	(178.5)	(178.5)	(178.5)	(178.5)	(178.5)	(2,141.5)
	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Personnel Costs (Excludes MED)	(P)	2,357.1	2,250.0	2,464.2	2,250.0	2,142.7	2,464.2	2,357.1	2,250.0	2,357.1	2,357.1	2,357.1	2,357.1	27,963.7
	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Leased Vehicle Payments	(P)	2,606.9	2,595.7	2,584.6	2,573.6	2,562.8	2,552.1	3,145.4	3,738.7	3,728.5	3,718.4	3,708.3	3,303.8	36,413.8
	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Vehicle Sales Reimbursement	(P)	0.0	468.1	0.0	0.0	29.2	0.0	0.0	1,218.5	0.0	0.0	884.2	0.0	2,600.0
	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fleet Mgmt Ctr RENT	(P)	300.5	290.9	300.5	300.5	271.4	300.5	290.9	300.5	290.9	300.5	300.5	290.8	3,538.4
	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FMC Travel (Excludes MED)	(P)	51.1	51.1	51.1	51.1	51.1	51.1	51.2	51.2	51.2	51.2	51.2	51.2	613.8
	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Regional MED Overhead	(P)	1,108.0	1,057.6	1,158.3	1,057.6	1,007.2	1,158.3	1,108.0	1,057.6	1,108.0	1,108.0	1,108.0	1,108.0	13,144.6
	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SUBTOTAL, ALL OTHER EXPENSES	(P)	12,524.6	12,164.5	12,275.5	11,596.9	11,481.4	12,881.2	13,249.3	14,978.3	14,098.2	14,072.6	14,701.6	13,686.7	157,710.8
	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Variance	+/(-)	(12,524.6)	(12,164.5)	(12,275.5)	(11,596.9)	(11,481.4)	(12,881.2)	(13,249.3)	(14,978.3)	(14,098.2)	(14,072.6)	(14,701.6)	(13,686.7)	(157,710.8)
Percent	+/(-)	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%
TOTAL ALLOWANCE EXPENSES	(P)	20,018.0	19,039.0	19,146.6	18,344.7	19,393.5	20,376.6	21,568.4	23,439.9	21,413.9	22,930.8	23,617.2	22,813.3	252,101.9
	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Variance	+/(-)	(20,018.0)	(19,039.0)	(19,146.6)	(18,344.7)	(19,393.5)	(20,376.6)	(21,568.4)	(23,439.9)	(21,413.9)	(22,930.8)	(23,617.2)	(22,813.3)	(252,101.9)
Percent	+/(-)	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%

MONTH 1 PROJECTION — NATIONWIDE FY 19XX — GSF 455x, INTERAGENCY FLEET MANAGEMENT SYSTEM - IFMS COST PROJECTION SUMMARY

COST ELEMENT DESCRIPTION		OCT 20	NOV 21	DEC 22	JAN 23	FEB 20	MAR 23	APR 22	MAY 21	JUN 22	JUL 22	AUG 22	SEP 20	TOTAL 261
Vehicle	(P)	11,377.0	10,096.0	10,467.0	10,448.0	10,564.0	17,495.0	10,332.0	10,127.0	10,000.0	10,729.0	10,718.0	10,864.0	152,810.0
Depreciation	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit/Loss	(P)	1.0	2.0	5.0	1.0	1.0	244.0	242.0	244.0	179.0	470.0	5,600.0	371.0	7,281.0
Vehicle Disposals	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Replacement Cost	(P)	7,143.0	7,124.0	7,356.0	7,390.0	7,405.0	7,443.0	7,363.0	7,388.0	7,268.0	359.0	7,564.0	7,608.0	90,652.0
Pricing (MCP)	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation, Shop Equipment	(P)	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	21.6
	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Central Office Expenses	(P)	2,270.3	2,270.3	2,270.4	2,270.3	2,270.3	2,270.4	2,270.3	2,270.3	2,270.4	2,270.3	2,270.3	2,270.4	27,244.0
	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Supplemental Expenses	(P)	597.7	597.7	597.7	597.7	597.7	597.7	597.8	597.8	597.8	597.8	597.8	597.8	7,173.0
	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous Expenses	(P)	27.5	27.5	27.5	27.5	27.5	27.5	27.5	27.5	27.5	27.5	27.5	27.5	330.0
	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL OPERATING EXPENSES	(P)	42,035.0	41,147.6	41,872.0	41,090.6	42,305.5	44,337.9	45,803.0	47,611.7	45,585.7	46,615.6	47,333.2	46,551.5	532,613.3
	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Variance	+/(-)	(42,035.0)	(41,147.6)	(41,872.0)	(41,090.6)	(42,305.5)	(44,337.9)	(45,803.0)	(47,611.7)	(45,585.7)	(46,615.6)	(47,333.2)	(46,551.5)	(532,613.3)
Percent	+/(-)	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%
TOTAL MILE PENALTY	(P)	130,373.9	129,642.6	113,717.2	98,953.4	117,591.9	120,806.4	131,867.4	129,023.7	128,628.3	136,351.1	134,940.6	135,103.5	1,506,000.0
	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Variance	+/(-)	(130,373.9)	(129,642.6)	(113,717.2)	(98,953.4)	(117,591.9)	(120,806.4)	(131,867.4)	(129,023.7)	(128,628.3)	(136,351.1)	(134,940.6)	(135,103.5)	(1,506,000.0)
Percent	+/(-)	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%

RECOMMENDED ALLOCATION OF ALLOWANCE EXPENSES BY QUARTER

MONTHLY	1ST	2ND	3RD	4TH
PETROLEUM ($)	21,239.0	22,155.3	24,096.4	26,960.4
ALL OTHER ($)	36,964.6	35,959.5	42,325.8	42,460.9
TOTAL ALLOWANCE ($)	58,203.6	58,114.8	66,422.2	69,421.3
PETROLEUM (%)	22.5%	23.5%	25.5%	28.5%
ALL OTHER (%)	23.4%	22.8%	26.8%	26.9%
TOTAL ALLOWANCE (%)	23.1%	23.1%	26.3%	27.5%

COST ELEMENT DESCRIPTION		OCT 13	NOV 21	DEC 22	JAN 4	FEB 22	MAR 2,	APR 2,	MAY 22	JUN 23	JUL 21	AUG 21	SEP 24	TOTAL 282
IFMS CAPITAL OUTLAY PLAN:						(THOUSANDS)								
Vehicle Depreciation	(P)	11,977.0	12,309.0	12,467.0	12,448.0	12,564.0	13,195.0	13,322.4	13,377.0	13,413.0	12,594.0	12,716.0	12,861.0	152,810.0
Actual Depreciation	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Replacement Cost Pricing	(P)	7,141.8	7,224.4	7,354.0	7,394.6	7,435.7	7,624.9	7,763.2	7,881.4	7,862.3	7,758.4	7,584.6	7,608.7	90,652.0
Actual RCP	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Vehicle Disposals,Book Value	(P)	9,201.0	10,118.0	5,498.0	199.0	299.0	1,053.0	13,881.0	20,045.0	30,676.0	21,982.0	21,911.0	1,986.0	137,450.0
Actual Disposals	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accident Recovery,Totaled Vehicles	(P)	208.0	208.0	209.0	208.0	208.0	209.0	208.0	208.0	209.0	208.0	208.0	209.0	2,500.0
Actual Recoveries	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL CAPITAL INCOME	(P)	28,527.8	29,859.4	25,533.0	20,249.6	20,506.7	22,081.9	35,184.2	41,261.4	51,960.3	43,547.4	42,421.6	22,664.7	383,812.0
ACTUAL INCOME	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
VARIANCE	+/(-)	(28,527.8)	(29,859.4)	(25,533.0)	(20,249.6)	(20,506.7)	(22,081.9)	(35,184.2)	(41,261.4)	(51,960.3)	(43,547.4)	(42,421.6)	(22,664.7)	(383,812.0)
PERCENT	+/(-)	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%
Equipment Purchases	(P)	13,364.0	16,175.0	18,190.0	10,447.0	12,836.0	33,399.0	75,611.0	62,079.0	56,284.0	45,428.0	40,694.0	29,570.0	435,877.0
Actual Purchases	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Variance	+/(-)	(13,364.0)	(16,175.0)	(18,190.0)	(10,447.0)	(12,836.0)	(33,399.0)	(75,611.0)	(62,079.0)	(56,284.0)	(45,428.0)	(40,694.0)	(29,570.0)	(435,877.0)
Percent	+/(-)	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%
CAPITAL BALANCE	(P)	15,163.8	13,684.4	7,343.0	9,798.6	7,670.7	(11,317.1)*	(40,426.8)	(40,817.6)	(4,323.7)	1,880.6	1,727.6	16,094.7	(52,065.0)
ACTUAL BALANCE	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

* INCLUDES $45.7 MILLION IN RECONCILED CAPITAL OUTLAYS FOR THE FY 1989 VEHICLE LEASE BUYOUT AGAINST WHICH ONLY $26.0 MILLION HAS BEEN RECOVERED AS CAPITAL INCOME (Note 1). A BALANCE OF $19.7 MILLION IN VEHICLE DISPOSAL PROCEEDS WILL CARRY OVER INTO FISCAL YEAR 1995

SUPPLY OPERATIONS OUTLAY PLAN:						(THOUSANDS)								
Equipment Depreciation	(P)	255.9	167.8	201.1	195.3	240.8	214.1	206.1	247.5	267.1	267.0	255.4	244.8	2,763.9
Actual Depreciation	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equipment Disposals,Book Value	(P)	46.2	24.1	44.1	14.8	95.2	44.9	210.0	98.9	94.8	80.8	41.8	42.1	845.8
Actual Disposals	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL CAPITAL INCOME	(P)	302.1	191.9	245.2	210.1	336.0	513.0	416.1	346.4	365.9	327.8	297.2	286.8	3,614.7
ACTUAL INCOME	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
VARIANCE	+/(-)	(302.1)	(191.9)	(245.2)	(210.1)	(336.0)	(513.0)	(416.1)	(346.4)	(365.9)	(327.8)	(297.2)	(286.8)	(3,614.7)
PERCENT	+/(-)	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%
Equipment Purchases	(P)	549.2	243.8	278.8	864.2	200.6	0.0	346.1	1,300.6	0.0	304.1	0.0	0.0	4,229.8
Actual Purchases	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL BALANCE	(P)	(247.1)	(91.7)	(33.6)	(654.1)	35.4	512.4	72.0	(954.2)	365.9	23.7	297.2	286.8	(615.1)
ACTUAL BALANCE	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

CUMULATIVE PROJECTION NATIONWIDE FY 1990 FEDERAL SUPPLY SERVICE - FSS FINANCIAL PLAN - INDUSTRIAL FUNDING COST PROJECTION SUMMARY INPUT DATE 05-Nov-89 RUN

COST ELEMENT DESCRIPTION		OCT 23	NOV 44	DEC 66	JAN 89	FEB 109	MAR 131	APR 153	MAY 174	JUN 196	JUL 219	AUG 240	SEP 262	TOTAL 262
IFMS CAPITAL OUTLAY PLAN						($THOUSANDS)								
Vehicle Depreciation	(P)	11,977.0	24,296.0	36,753.0	49,201.0	61,765.0	74,960.0	88,292.0	101,419.0	114,632.0	127,231.0	139,949.0	152,670.0	152,670.0
Actual Depreciation	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Replacement Cost Pricing	(P)	7,141.8	14,366.2	21,722.2	29,112.8	36,548.5	44,173.4	51,936.6	59,818.0	67,700.3	75,458.7	83,043.3	90,632.0	90,632.0
Actual RCP	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Vehicle Disposals,Book Value	(P)	9,201.0	19,319.0	24,818.0	25,017.0	25,316.0	26,369.0	40,250.0	60,295.0	90,971.0	113,953.0	135,864.0	157,850.0	157,850.0
Actual Disposals	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accident Recovery,Totaled Vehicles	(P)	208.0	416.0	625.0	833.0	1,041.0	1,250.0	1,458.0	1,666.0	1,875.0	2,083.0	2,291.0	2,500.0	2,500.0
Actual Recoveries	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL CAPITAL INCOME	(P)	28,527.8	58,387.2	83,918.2	104,163.8	124,670.5	146,752.4	181,936.6	223,198.0	275,178.3	318,725.7	361,147.3	383,812.0	383,812.0
ACTUAL INCOME	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
VARIANCE	+/(-)	(28,527.8)	(58,387.2)	(83,918.2)	(104,163.8)	(124,670.5)	(146,752.4)	(181,936.6)	(223,198.0)	(275,178.3)	(318,725.7)	(361,147.3)	(383,812.0)	(383,812.0)
PERCENT	+/(-)	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%
Equipment Purchases	(P)	13,364.0	31,539.0	49,729.0	60,176.0	73,012.0	106,411.0	182,022.0	264,101.0	326,385.0	365,813.0	406,507.0	435,877.0	435,877.0
Actual Purchases	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Variance	+/(-)	(13,364.0)	(31,539.0)	(49,729.0)	(60,176.0)	(73,012.0)	(106,411.0)	(182,022.0)	(264,101.0)	(326,385.0)	(365,813.0)	(406,507.0)	(435,877.0)	(435,877.0)
Percent	+/(-)	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%
CAPITAL BALANCE	(P)	15,163.8	26,848.2	34,189.2	43,987.8	51,658.5	40,341.4	(85.4)	(40,903.0)	(45,206.7)	(47,087.3)	(45,359.7)	(52,065.0)	(52,065.0)
ACTUAL BALANCE	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

* INCLUDES $45.7 MILLION IN RECAPITALIZED CAPITAL OUTLAYS FOR THE FY 1989 VEHICLE LEASE BUYOUT, AGAINST WHICH ONLY $26.0 MILLION HAS BEEN RECORDED AS CAPITAL INCOME. THAT IS, A BALANCE OF $19.7 MILLION IN VEHICLE DISPOSAL PROCEEDS WILL CARRY OVER INTO FISCAL YEAR 1990.

SUPPLY OPERATIONS OUTLAY PLAN:						($THOUSANDS)								
Equipment Depreciation	(P)	255.9	423.7	624.8	820.1	1,060.9	1,275.0	1,483.1	1,730.6	1,997.7	2,264.7	2,520.1	2,766.9	2,766.9
Actual Depreciation	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equipment Disposals,Book Value	(P)	46.2	70.3	114.4	129.2	214.4	323.3	535.3	632.2	734.0	791.0	802.8	845.8	845.8
Actual Disposals	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL CAPITAL INCOME	(P)	302.1	494.0	739.2	949.3	1,285.3	1,598.3	2,018.4	2,362.8	2,728.7	3,055.7	3,322.9	3,614.7	3,614.7
ACTUAL INCOME	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
VARIANCE	+/(-)	(302.1)	(494.0)	(739.2)	(949.3)	(1,285.3)	(1,598.3)	(2,018.4)	(2,362.8)	(2,728.7)	(3,055.7)	(3,322.9)	(3,614.7)	(3,614.7)
PERCENT	+/(-)	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%
Equipment Purchases	(P)	549.2	833.0	1,111.8	1,976.0	2,276.6	2,277.2	2,623.3	3,923.9	3,924.5	4,229.6	4,229.2	4,229.8	4,229.8
Actual Purchases	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL BALANCE	(P)	(247.1)	(339.0)	(372.6)	(1,026.7)	(991.3)	(678.9)	(604.9)	(1,561.1)	(1,195.8)	(1,173.9)	(906.3)	(615.1)	(615.1)
ACTUAL BALANCE	(A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

INDUSTRIAL FUNDING - GENERAL SUPPLY FUND
FLEET PROGRAM BALANCE SHEET
FISCAL YEAR 1993
($ thousands)

FLEBAL
2/25/93

MONTHLY PLAN

	SEP - 1991	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP
Cash	$131,324	$150,525	$163,242	$174,183	$184,300	$184,763	$177,827	$129,566	$88,948	$83,440	$83,787	$86,773	$77,397
Accounts Receivable	$93,568	$88,090	$88,709	$85,116	$82,510	$92,923	$87,216	$94,191	$94,456	$98,007	$93,421	$91,727	$94,959
Property & Equipment	$1,077,432	$1,067,673	$1,061,466	$1,059,722	$1,055,544	$1,053,528	$1,070,679	$1,117,067	$1,163,954	$1,174,319	$1,182,125	$1,167,906	$1,162,140
Inventory	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Other Assets	$2,653	$2,653	$2,653	$2,653	$4,530	$3,591	$2,653	$4,530	$3,591	$2,653	$4,530	$3,591	$2,653
Total Assets	$1,304,977	$1,308,941	$1,316,070	$1,321,674	$1,326,884	$1,334,805	$1,338,375	$1,345,354	$1,350,949	$1,358,419	$1,363,863	$1,349,997	$1,337,149
Accounts Payable	$23,761	$20,515	$20,915	$20,434	$20,050	$22,852	$21,521	$22,978	$23,107	$22,900	$22,542	$22,850	$23,290
Lease	$94,379	$92,642	$90,895	$89,136	$87,366	$85,585	$83,794	$81,992	$80,180	$78,359	$76,526	$56,450	$36,370
Other Liabilities	$4,242	$4,242	$4,242	$4,242	$4,242	$4,242	$4,242	$4,242	$4,242	$4,242	$4,242	$4,242	$4,242
Total Liabilities	$122,382	$117,399	$116,052	$113,812	$111,658	$112,679	$109,557	$109,212	$107,529	$105,501	$103,310	$83,542	$63,902
Appropriated Capital	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Recovery Cost Pricing	$683,406	$690,548	$697,772	$705,128	$712,519	$719,955	$727,580	$735,343	$743,224	$751,106	$758,864	$766,449	$774,058
Retained Earnings-Curr Yr	$7,179	$1,805	$3,057	$3,545	$3,518	$2,982	$2,049	$1,610	$1,007	$2,623	$2,500	$817	$0
Retained Earnings-Prior Yr	($2,369)	($2,521)	($2,521)	($2,521)	($2,521)	($2,521)	($2,521)	($2,521)	($2,521)	($2,521)	($2,521)	($2,521)	($2,521)
Capitalized Surplus	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Donations, Other	$141,921	$141,921	$141,921	$141,921	$141,921	$141,921	$141,921	$141,921	$141,921	$141,921	$141,921	$141,921	$141,921
Intrafund Transfers	$352,458	$359,789	$359,789	$359,789	$359,789	$359,789	$359,789	$359,789	$359,789	$359,789	$359,789	$359,789	$359,789
Total Equity	$1,182,595	$1,191,542	$1,200,018	$1,207,862	$1,215,226	$1,222,126	$1,228,818	$1,236,142	$1,243,420	$1,252,918	$1,260,553	$1,266,455	$1,273,247
Total Liab. & Equity	$1,304,977	$1,308,941	$1,316,070	$1,321,674	$1,326,884	$1,334,805	$1,338,375	$1,345,354	$1,350,949	$1,358,419	$1,363,863	$1,349,997	$1,337,149

	PLAN	PLAN	PLAN	PLAN	PLAN	PLAN	PLAN	PLAN	PLAN	PLAN	PLAN	PLAN
	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP
Net Income/Loss(-)	$1,805	$1,252	$488	($27)	($536)	($933)	($439)	($603)	$1,616	($123)	($1,683)	($817)
Depreciation & Non-Cash Charges*	$11,977	$12,309	$12,467	$12,448	$12,564	$13,195	$13,332	$13,127	$13,213	$12,599	$12,718	$12,861
RCP	$7,142	$7,224	$7,356	$7,391	$7,436	$7,625	$7,763	$7,881	$7,882	$7,758	$7,585	$7,609
NV Disposal Book Value	$9,409	$10,326	$5,708	$407	$507	$1,262	$14,089	$20,253	$30,885	$23,190	$22,119	$2,195
Total Sources of Funds	$30,333	$31,111	$26,019	$20,219	$19,971	$21,149	$34,745	$40,658	$53,596	$43,424	$40,739	$21,848
Capital Expenditures	$13,364	$18,175	$18,190	$10,447	$12,836	$33,399	$75,611	$82,079	$56,284	$45,428	$40,694	$29,370
Inventory Increase/Decrease(-)	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Receivables Increase/Decrease(-)	($5,478)	$619	($3,593)	($2,606)	$10,413	($5,707)	$6,975	$265	$3,551	($4,586)	($1,694)	$3,232
Payables Decrease/Increase(-)	$3,246	($400)	$481	$384	($2,802)	$1,331	($1,457)	($129)	$207	$358	($308)	($440)
Other **	$0	$0	$0	$1,877	($939)	($938)	$1,877	($939)	($938)	$1,877	($939)	($938)
Total Uses of Funds	$11,132	$18,394	$15,078	$10,102	$19,508	$28,085	$83,006	$81,276	$59,104	$43,077	$37,753	$31,224
Net Cash Flow	$19,201	$12,717	$10,941	$10,117	$463	($6,936)	($48,261)	($40,618)	($5,508)	$347	$2,986	($9,376)

* Unfunded Leave, Bad Debt Expense

** Accruals, Deferred Charges, Prepaid Expenses, etc.

ALTERNATIVE FUELS

Mr. VISCLOSKY. Mr. Istook.

Mr. ISTOOK. Thank you. I believe you made some mention earlier of efforts to make conversion to alternative fuels of vehicles in the Federal fleet. Could you share once more the number of vehicles you are seeking to convert, the type of conversion and the anticipated per vehicle cost?

Mr. DANIERO. Okay, the general policy of both the Congress and the administration, past administration up to this time, as shown in the statutes, the laws that were passed, whether it was the Alternate Motor Fuels Act or Clean Air Act, so forth, the executive orders, basically preferred that in obtaining alternative fuel vehicles, that we, rather than retrofitting existing vehicles, bought vehicles from the original equipment manufacturers to try to spur the industry to move in that direction for the commercial purchases or retail purchases to the private citizen and other private fleets and so forth. We were trying to use ourself as a leverage.

We have, in the early 1970s, we did experiment with some retrofitting, primarily with natural gas vehicles. We had some problems with them in terms of the technology at that time. We had some problems with the weight of the tanks. We had significant problems with the distance we could get from the vehicle before it had to be refueled. Resale of the vehicle became a problem because nobody knew how to maintain it or fix it or whatever, so we did not have a very good experience in the middle 1970s with doing this kind of thing.

When we moved—now that we are moving into the 1990s and retrofitting is becoming attractive from a cost standpoint, we are beginning to look at it with the Department of Energy. I think what the Department of Energy is planning to do is to establish a contract with a retrofitting company who would provide warranties, parts, service, and be a very reputable situation for the government to rely on in terms of the vehicles. I think that in the future you will see us begin to consider more retrofitting, particularly in the natural gas area, because of the tremendous price differential that we can't seem to break through right now, which is $7,000 to $10,000 per vehicle more than the standard gasoline vehicle for natural gas, whereas retrofitting would cost maybe around $3,000 per vehicle.

Mr. ISTOOK. But do you or do you not have any current plans to expand that program of conversion or retrofitting?

Mr. DANIERO. Currently, no. I am not sure what the language in the President's budget providing $28 million for energy conversion of vehicles exactly means. I think DOE is going to get the money and they will provide it to us as well as other agencies. If that is for retrofitting, then obviously we would get heavily involved in that.

Mr. ISTOOK. So whatever is going on in that area, if they are talking about retrofitting anything, it would be part of GSA's fleet, they haven't clued you in on it yet?

Mr. DANIERO. We usually are about 50 percent of the action when DOE starts this kind of initiative. We do about half of it and the rest of it—the government does the other half.

Mr. ISTOOK. Would your recommendation be consistent with theirs that retrofitting would be in the best interest of the Federal fleet and the best use of the taxpayer's dollar?

Mr. DANIERO. I think we are coming around to the idea that—again, in a natural gas area, that it bears looking at, retrofitting bears looking at, because we——

Mr. ISTOOK. Does that mean that you intend to start looking at it or you have already been looking at it?

Mr. DANIERO. We actually proposed, in this jobs incentive request, that retrofitting be considered.

Mr. ISTOOK. Okay, but the status is you have proposed a consideration as opposed to you have proposed actually doing it? You are proposing studying it as opposed to doing it? Which is it?

Mr. DANIERO. If the funding is made available to retrofit through DOE, we are prepared to do it.

Mr. ISTOOK. But are you proposing doing it?

Mr. DANIERO. We did propose to do it. We gave them an alternative. We asked for funds to purchase, or we asked for funds to retrofit, both as jobs creation initiatives.

Mr. ISTOOK. But the retrofit does have a cost advantage of $3,000 per vehicle as opposed to $7,000 or $8,000 per vehicle.

Mr. DANIERO. In the natural gas area, right. The opposite is true in the methanol area, for example. We can buy those vehicles today at the same price as the gasoline, so we would not particularly favor retrofitting—you know, it would not offer advantage—it would cost us money to retrofit something that the manufacturer would give us at the same price.

SELECTION SYSTEM FOR FEDERAL CONTRACTING

Mr. ISTOOK. Certainly, all right. I want to ask, do you foresee that any changes are coming in the quality and selection system for Federal contracting with engineers, architects and similar technical contractors?

Mr. DANIERO. We don't do a lot of contracting with architects and engineers and so it is primarily the Public Buildings Service that does that. Most of the service contracts that we would do would be, we do relocation service for government employees where we hire companies to do that, we do debt collection service contracts, credit card contracts, those kind of things.

Mr. ISTOOK. That would really be under a different division then.

Mr. DANIERO. Right.

Mr. ISTOOK. We will submit that question then. I don't have any further questions, thank you.

[The following additional information was provided by GSA:]

FEDERAL CONTRACTING WITH ENGINEERS

FSS does not foresee any significant changes to Architectural and Engineering (A&E) contracting procedures or applications of cost principles to Government contracts. This judgment is based upon the following facts:

1. The Federal Supply Service does not regularly contract for A&E services. These services are generally in the purview of the Public Buildings Service (PBS) of GSA.

The first step in any change to A&E contracting procedures would be the publishing of Notices of Proposed Rule Making, or Advanced Notice of Proposed Rule Making in the Federal Register. Contracting for A&E is covered by Chapter 36 of the Federal Acquisition Regulation (FAR) and Chapter 536 of the General Services Acquisition Regulation (GSAR). We are unaware of any proposed changes to those regulations being published in the Federal Register.

2. Chapter 31 of the FAR establishes the Cost Principles, including specific definitions of which costs are allocable and allowable as applied to all cost based contracts. FSS is not currently recommending any changes to the cost principles established in Chapter 31. The latest FAR change, FAC 90–16 dated December 16, 1992, included minor revisions to the principles relating to severance pay and consulting services. We are unaware of any proposed changes to the cost principles being published in the Federal Register.

Mr. VISCLOSKY. I would intend to close with two questions. Before I do—Mr. Wolf.

AIRCRAFT MANAGEMENT

Mr. WOLF. Thank you, Mr. Chairman. I had some other questions. I had to be on the Floor for a colleague. But would you just explain to me how does an agency make a decision if an airplane can be used?

Mr. DANIERO. I am not sure I am in a position to explain that. I think that there are a variety of government aircraft. There is mission—really what you call mission aircraft that you would use in drug interdiction and things like that. There are also aircraft that FAA uses, for example, to test out different instruments and things like that.

Mr. WOLF. I am talking about a Forest Service airplane or a CIA plane or the FBI plane. I think President Clinton—there is a new opportunity here and he is on to something I think on this whole cost question, and I have heard in the last couple of days, stories of wives flying and different things like this. We had the Judge Sessions thing. Is no one in the government promulgating regulations as to what the standards are with regard to flying?

That is why I want to know, what are the rules for agencies, if you will, as to who should fly or who not to fly or who should buy planes? Is anyone questioning whether the Forest Service needs to buy planes? That is what I want you to tell me. What are the rules in government for agencies?

Mr. DANIERO. It is a variety of things. I think, one, I think a number of agencies have authority within their authorizing legislation that enables them to purchase aircraft for various purposes and they get funding to do that and so forth.

Mr. WOLF. You have no involvement in that at all?

Mr. DANIERO. No.

Mr. WOLF. You have no involvement with the inventory, nothing? Your role there would be what?

Mr. DANIERO. Our role is basically to work with OMB who issued the OMB Circular A 1226 which has laid out some guidelines and rules and regulations about the use of aircraft, when you should acquire an aircraft and I think they are revising it based on President Clinton's messages to the department heads about use of aircraft, I think you are going to see those significantly revised to essentially almost eliminate the use of government aircraft in lieu of flying commercial coach or charter or whatever.

Mr. WOLF. And that will all be done through OMB?

Mr. DANIERO. OMB and ourselves. They will issue the amended circular, I am sure, to cover those kind of things, and we are an agent of OMB in the sense that we are in the position to require the agencies to report how many aircraft they have, where are they, who is using them.

Mr. WOLF. Are they doing that? Do you have a log of how many aircraft there are?

Mr. DANIERO. Yes.

Mr. WOLF. Where they are, whether they are in a museum or——

Mr. DANIERO. Right.

Mr. WOLF. Do you have a record of how many times they are used?

Mr. DANIERO. Yes, we have information on usage and——

Mr. WOLF. Do you have a manifest of who flies and who doesn't fly?

Mr. DANIERO. Again, I am—you know, we have quite a bit of information. I am not sure I can——

Mr. WOLF. It seems to me that there is a lot of abuse perhaps going on, and I watched the way the National Science Foundation handled the arrogance. I mean, what they did basically was arrogant, and I watched that GSA was helpless. They couldn't do anything. I didn't believe that we would reach this situation. Now I wonder, are airplanes just taking off and flying all over the world and all over the country and whoever wants to use them and nobody knows? Do you need more regulation, do you need more law at GSA to regulate what is going on?

Mr. DANIERO. I would say right now that we probably do not have a great deal of regulatory authority over use of the aircraft other than through the OMB circular.

Mr. EARLY. We are new on the scene in this in that our new found role in this is data collection, and as you are saying, there has been little central management focus and the first thing to do was to standardize a way of collecting the data so that you can find those kinds of things that you are describing, and then the intent was to address it through policy or regulation, which the President has helped a whole lot in by setting some standards. Again, the GSA's role heretofore is a new found one and it is data collection.

Mr. DANIERO. We set up a committee called the Interagency Committee for Aircraft Management on which we have representatives from all the major agencies who own aircraft. This committee has been in existence for a couple of years. They have been working with us to help us try to deal with this exact situation in terms of we have some responsibilities to try to develop some safety standards, acquisition standards.

PILOT CERTIFICATION

Mr. WOLF. Let me ask you about safety. Is there any Federal regulation requiring that all the pilots be FAA certified?

Mr. DANIERO. I think the quick answer to that is probably no. I think FAA rules don't apply to civilian aircraft.

Mr. WOLF. So that a—if FAA rules don't apply? You mean you have to be certified through the FAA to be a pilot. You are licensed. Jim, you are a pilot. What is the requirement there?

Mr. LIGHTFOOT. There is a real glitch in the law that if aircraft are used for public service activities like law enforcement and so on, they do not have to meet FAA criteria. It is absolutely stupid, but that is the way it is.

Mr. WOLF. You may have pilots then who don't meet the FAA requirements flying for different Federal agencies.

AIRCRAFT MANAGEMENT

Mr. DANIERO. We hope not, but I mean in terms of actual certification, I am sure all these agencies have very good training programs and we have been looking at agency training programs. We have developed a training manual. We have gone in and done a number of studies voluntarily with agencies in which we put together a group from our interagency committee of experts who went in and did an analysis of the agency's operations and made suggestions for changes and improvement and so forth. So we have a—you have to understand.

When we first were given this assignment a couple years ago, we didn't have a person in my shop that knew anything about aircraft. Maybe somebody was a pilot, but we had to start from scratch to try to build a capability to deal with this aircraft management problem, and we have made significant progress using the committee, hiring people, using some contractual services to get expertise that we need for short periods of time and so forth, so—but it is—and it is coming along, but I mean, it has been starting from scratch for us.

You know, we originally thought that perhaps someone like FAA or someone else, or DOT should have this responsibility rather than GSA, but——

Mr. WOLF. Should they, do you think? I mean, not that you do a better job, but should the FAA have it? It seems to me somebody should have a record of all the aircraft and know how the aircraft is being used, where it is and some rules with regard to purchasing of aircraft, servicing of aircraft, maintenance of aircraft and who flies and who doesn't fly. Otherwise, it really is open for abuse and this doesn't go back to criticize the previous administration or to be critical of the new administration.

You have an opportunity here when there isn't anybody that can feel that they are being criticized and an opportunity to set something up. So I wonder, should this be taken away or given to the FAA? I serve on the Transportation Appropriations Committee. Maybe this is something that the committee should look at.

Mr. DANIERO. We rely on them very heavily right now as a matter of fact, out of the goodness of their hearts to help us out and work with us, and they have provided a lot of the committee chairmen, they have provided expertise to us. They have provided a lot of the effort in drafting and writing manuals for us and so forth, so they have been helpful and cooperative, but certainly we are struggling with something that they are expert in.

[The following additional information was provided by GSA:]

When GSA was first assigned a responsibility in this area in 1983, our role was quite limited. the 1983 GAO audit report stressed GSA's role as a central data repository rather than the aggressive and far reaching central management focal point for a broad range of aircraft management issues that we have become. Originally, were to establish an information system capturing aircraft inventory, cost and utilization data, and could, but were not required to, explore procurement, disposal and other significant management issues.

Over the years since then, however, our responsibilities have grown, as have those levied on operating agencies through multiple versions of OMB Circular A–126 and subsequent Congressional, GAO, and IG interest. These areas include diverse requirements in policy analysis; safety regulations; issuance of standards for aircraft operations, procurement, cost accounting, disposal, etc.; A–76 studies; automated logistics management systems; and several others.

This extension of our charter has required us to draw more and more on expertise from other agencies, especially FAA, where the most technical knowledge and experience resides. Much of what we are now doing in terms of safety, operational guidance, cost accounting, etc., is based on what FAA has already done.

Thus, a case could be made either way: GSA has plowed much ground in working with the interagency community since 1983, but as the spotlight continues to shift to what the Federal government does with its aircraft, it is arguable that the central authority for aviation in the Nation, the FAA, is the logical place to provide the leadership for the federal sector.

Mr. LIGHTFOOT. So that I don't leave a false impression, the comment I made about the law enforcement agencies and so on, that pertains to the aircraft. I don't know what it is on pilots. I assume that they still got to be through the—but that is strictly the birds itself. It does not have to have 100-hour inspections. It does not have to meet all the criteria that I have to with my airplane.

Mr. WOLF. I didn't know that.

Mr. LIGHTFOOT. They are totally exempt from it on the aircraft.

Mr. DANIERO. Like you say, that is a glitch.

Mr. LIGHTFOOT. I didn't want to leave the impression was pilots too——

Mr. WOLF. I don't want to take the Committee's time. If you would just let me know when you call or let the Committee know officially, or both, and if you would look at the question to see if it would maybe make some sense to transfer this responsibility, and I may offer an amendment, in fact, I think I probably will unless you can give me a reason why, not as any criticism of GSA, that I guess the people that operate these, if you were looking at plows or tractors, maybe USDA ought to be involved, but it does make sense and we have heard some stories of different things going on and different people flying. We read about Judge Sessions and did his wife fly, was it in violation, and I think you almost do a favor for the agency if you have a set regulation governmentwide, because otherwise you put a director, whether it be Park Service, BLM, or Forest Service, in a difficult spot.

I think he or she is able to say, this is what we can use this aircraft for and we can't use it for this and you can't fly and you can't fly and you can. And I think we ought to have a standard, particularly since the President has opened this issue up and people are looking at it, a standard requirement across the government, except perhaps DOD, where by regulation, maintenance, who operates it, who flies it and things like that.

So if you could look at that and get back to me. I thank the gentleman for the opportunity.

Mr. LIGHTFOOT. I just would like to ask unanimous consent to submit at the end of the hearing, some questions by Mr. McDade,

Ranking Member. It relates to the stimulus package and so on, I realize there is a short-time line before you fellas come back over here, but whenever you can respond to it, appreciate it. Thank you.

AIRLINE RATES

Mr. VISCLOSKY. Following up a point Mr. Olver made, regarding terms of the government rate for people who fly, are those rates determined on an annual basis or are these ongoing negotiations?

Mr. DANIERO. We recompete annually.

Mr. VISCLOSKY. In the President's remarks last night, he specifically mentioned the problems that the carriers are having, and at least inferred, if I recall his remarks correctly, that he would be interested in investigating that situation in terms of the losses and whether or not there is some role for the government to play.

My question is, if the President decides to act on the issue of the domestic carriers—the financial problems they are having, implied in that if we, the taxpayers, through their agency, the national government, would do something for them, would there be a strategy reduce to reduce government rates as part of that package? If I am going to do the airlines a favor, if I can cut a nickel off of every dollar I spend three times a month to fly to Chicago, O'Hare, I pick up 35 bucks a month for somebody. Has anyone thought about that?

Would the GSA be the appropriate agency to devise a strategy, if the administration enters into such negotiations with the airline industry?

Mr. DANIERO. Well, currently I think that in general we do very well in terms of what the airlines are offering us. I think we do average anywhere from 50 to 60 percent off coach fair that people would normally pay and our reduced rates are unrestricted. It is not like you've got to fly on a weekend or this kind of thing. And I think it is basically the marketplace working in terms of competition.

To set a government rate, if you tied it into some other program of assistance for the airlines, you could theoretically say that we want government travel to be at 50 percent of—across the board regardless of what airline we are dealing with. It is 50 percent off the ticket in exchange for something else, you know, that the government may be doing to help the airline industry or something like that.

I mean, certainly that is possible, but I would think the airline industry would probably oppose it. You know, helping them on one hand and so forth. The seats are all revenue producing for them and they are very cautious about how many seats they give up and for what rate.

Mr. VISCLOSKY. I appreciate that. In the abstract they would be opposed to it. But the President alluded to the problems the industry has financially. On the other hand, if we can use taxpayers' dollars in some way to help them, we are going to give them money. It would at least be worth thinking about—can you shave a couple of bucks off these rates, because on most of the flights I take, there are empty seats.

Mr. DANIERO. I think the place you might see that being the most helpful might be in a situation where, given city pairs that are not frequently traveled, et cetera, which is only a 300 mile trip, may cost more than the trip to Los Angeles, and maybe in those kinds of markets it would be really interesting to see what we could do.

Mr. LIGHTFOOT. Would the gentleman yield please?

Mr. VISCLOSKY. Sure.

Mr. LIGHTFOOT. Just as a suggestion, I have been able to get cheaper fares than the government fare due to some of the specials that the airlines have offered from time to time and would it be feasible then, when the airlines bid for these rates and routes, that there be some wording in there that Federal employees would get this rate or whatever the prevailing lowest rate might be or something to that effect, so to take advantage of when they are doing some of this headhunting? I flew home for 160 bucks and the Federal rate was like $300 as I recall.

Mr. DANIERO. We are in litigation with the airlines right now, have been for a couple years on that very principle that the government—in our transportation audits function that we also have in the Federal Supply Service, we were, in fact, taking the lowest rate that they offered regardless of what the ticket was.

Mr. LIGHTFOOT. And they said you had to stick with the higher one?

Mr. DANIERO. They appealed it to GAO. GAO ruled against us. Our legal opinion from the Justice Department didn't agree with GAO. It went to court. We lost in District Court and the Justice Department is now appealing, I believe on the basis that they still think the statute gives us that right in the transportation area to the lowest price available unless the airline can prove the seat wasn't available at that price, and the airline's contention is, no, if you didn't ask for it, you are not going to get it.

Mr. EARLY. Our regulations do permit though that if an employee is able to schedule or plan his trip a week or two weeks in advance and because of that advanced planning is able to get a lower fare, he is encouraged to do that instead of using the city pair. Our city pair has no constraints on it, so we get a good fare, if you have a one hour notice. It is not necessarily the best fare if you know 30 days in advance and don't change your plans. We do permit and encourage them to get that lower fare that is available.

Mr. YONKLER. We also have a problem where they are restricted fares because of their penalties. For those frequent government travelers, if they are forced to change their plans at the last minute, it gets very expensive at that point.

Mr. LIGHTFOOT. Thank you, Peter.

OFFSHORE PROCUREMENTS

Mr. VISCLOSKY. Last two questions. In 1991 you indicated you spent about $82 million on offshore procurements. Do you have a sense in 1992, whether that figure went up or whether that figure went down?

Mr. DANIERO. I believe the figure went up to some degree, and we are trying to ascertain where exactly it went up. I believe it

was in the furniture area. It may have been in the systems furniture, but I—in fact, just this morning I was trying to get that information because I anticipated that question might come up again. I think it is somewhere in the neighborhood of $140 million versus the $82 million. Still relatively out of the $5 billion, still not a big number, but it is an increase and I think it is in the furniture area.

Mr. VISCLOSKY. I assume that at a later date, we will have more information.

Mr. DANIERO. Yes, we can get that information for you. I think it was the furniture area and from Germany. Some preliminary data seem to indicate that.

[The following additional information was provided by GSA:]

"OFF SHORE" PROCUREMENT ITEMS THAT POTENTIALLY COULD BE PRODUCED BY FEDERAL PRISON INDUSTRIES

There is very little additional opportunity for FPI production of items supplied by FSS and obtained from off shore production.

The fiscal year 1992 total for offshore procurement items is $123.4 million. Most of the value is purchased under the Multiple Award Schedule (MAS) program, which had total sales of $2.288 billion. Most of the items probably could **NOT** be produced by FPI. However, where FPI is able to produce some of these items, like Ergonomic Chairs, they are in competition with the domestic source vendors on the MAS. A listing of the top 10 off shore items is attached, with additional details on the countries of origin.

Also attached is a detailed listing of stock numbered items with off shore production points under contracts in effect during fiscal year 1992. Fiscal year 1992 sales of these items were only $1.7 million. Most of the sales were for calculators and typewriters which are probably not potential FPI items. For remaining items, it is more likely that FPI could produce them because FSS uses detailed technical and performance documents for acquisitions. Data available from computer records does not indicate whether there was competition from domestic source vendors for these items. However, this detail could be obtained from individual procurement case files for items of interest to FPI.

Following is a further breakout showing the foreign source (FY-92):

CLASS	ITEM	COUNTRY	$ MILLIONS
36 IV	Copiers/ Laser Printers (MAS)		71.6
		Japan	59.5
		Netherlands	12.1
36 IV A	Copiers (SAS)	Japan	2.5
	TOTAL COPIERS/LASER PRINTERS		74.1
67 II & III B	Film/Photo Chem/ paper	Japan	6.1
		Switzerland	4.3
		Germany	.3
		Other-Belgium & Italy	.1
	TOTAL FILM PHOTO SUPPLIES		10.8
71 III N	ADP Furniture	Canada	9.6
74 I A	Typewriters (MAS)		5.3
		Japan	5.1
		Germany	.2
74 I B	Typewriters (SAS)	Japan	3.1
	TOTAL TYPEWRITERS		8.4
71 III K	Ergonomic Chairs	Germany	5.2
		Canada	.7
	TOTAL ERGONOMIC CHAIRS		5.9
67 IV B	Microphoto Equip.	Japan	5.5
23 I	Wheel/Track Vehicles	Japan	4.5
74 II A	Calculators	Japan	2.0
67 IV C	Microfiche Read/Print	Japan	1.5
71 II E	Systems Furniture	Canada	1.1

NOTE:

Above excludes $42.2 million from the International Schedule which is bought by overseas personnel for use overseas. This value is primarily for:

Miscellaneous Furniture	21.3
Systems Furniture	7.8
Prefabricated Structures	2.5
Cleaning Equipment & Supplies	2.4

TOP TEN ITEMS FROM FOREIGN SOURCES, FY 1992

	ITEM	$ MILLIONS
1.	Copiers/Laser Printers	74.1
2.	Film/Photo Supplies	10.8
3.	ADP Furniture	9.6
4.	Typewriters	8.4
5.	Ergonomic Chairs	5.9
6.	Microphoto Equipment	5.5
7.	Wheel/Track Vehicles	4.5
8.	Calculators	2.0
9.	Microfiche Reader/Printer	1.5
10.	Systems Furniture	1.1

NOTE:

Above excludes $42.2 million from the International Schedule which is bought by overseas personnel for use overseas. This value is primarily for:

Miscellaneous Furniture Conference Room Tables etc.	21.3
Systems Furniture	7.8
Prefabricated Structures	2.5
Cleaning Equipment & Supplies	2.4

CONVERSION CHART FOR FOREIGN PRODUCTION POINTS

BUSINESS SIZE

3 - SMALL DISADVANTAGED (INCLUDING 8A)
4 - OTHER SMALL BUSINESS
5 - LARGE BUSINESS
6 - NONPROFIT: EDUCATIONAL
7 - NONPROFIT: HOSPITAL
8 - NONPROFIT: OTHER
A - STATE/LOCAL GOVERNMENT, EDUCATIONAL
B - STATE/LOCAL GOVERNMENT, HOSPITAL
C - STATE/LOCAL GOVERNMENT, OTHER
D - FOREIGN CONTRACTOR
E - DOMESTIC CONTRACTOR PERFORMING OUTSIDE U.S.
F - NIB/NISH SHELTERED WORKSHOP
G - GOVERNMENT PRINTING OFFICE (GPO)
H - FEDERAL PRISON INDUSTRIES (FPI)

CENTERS		RPT-OFF
NEW YORK	(2FY)	E, H, N
FORT WORTH	(7F)	F
TOOLS KS	(6FE-D)	M
TOOLS CO	(6FE-CO)	I, L
AUBURN	(9FT-10)	T
FURNITURE	(3FN-CO)	O, U, V
SCIENTIFIC	(FCG)	J, Z, Y
SERVICES	(FCX)	Q, X
AUTOMOTIVE	(FCA)	R

FOREIGN PRODUCTION POINTS
FEBRUARY 22, 1993

RPT OFF: F

BUS SIZE: D

VENDOR	CECC	NSN	DESCRIPTION	PO NO	QTY	COST PRICE	SELL PRICE
WAJAX INDUSTRIES LIMITED	242215804	9905012252022	PLATE,INSTRUCTION	FPNE254711	1	9	13
WAJAX INDUSTRIES LIMITED	242215804	9905012252019	PLATE,INSTRUCTION	FPNE254711	1	33	48

SUMMARIES FOR BUS SIZE: D

TOT-NSN: 2
TOT PO'S: 2
TOT QTY: 2
TOT COST: 43
TOT SELL: 62

BUS SIZE: 5

VENDOR	CECC	NSN	DESCRIPTION	PO NO	QTY	COST PRICE	SELL PRICE
GENERAL MOTORS OF CANADA	241930544	9905011617687	PLATE,INSTRUCTION	FPNBV14191	20	104	150

SUMMARIES FOR BUS SIZE: 5

TOT-NSN: 1
TOT PO'S: 1
TOT QTY: 20
TOT COST: 104
TOT SELL: 150

VENDOR	CECC	NSN	DESCRIPTION	PO NO	QTY	COST PRICE	SELL PRICE

SUMMARIES FOR RPT OFF: F

TOT-NSN: 3
TOT PO'S: 3
TOT QTY: 22
TOT COST: 147
TOT SELL: 213

RPT OFF: H

BUS SIZE: D

VENDOR	CECC	NSN	DESCRIPTION	PO NO	QTY	COST PRICE	SELL PRICE
THOM-TEX PAPER CONVERTING CORP.	09004708F	7530009908884	FOLDER FILE A PART	SWNT299C	99,750	62,244	61,845
THOM-TEX PAPER CONVERTING CORP.	09004708F	7530009908884	FOLDER FILE A PART	SWNT2573	47,200	29,452	29,264
THOM-TEX PAPER CONVERTING CORP.	09004708F	7530009908884	FOLDER FILE A PART	SWNT2961	65,100	40,622	40,362
THOM-TEX PAPER CONVERTING CORP.	09004708F	7530009908884	FOLDER FILE A PART	SWNT264A	52,300	32,635	32,426
THOM-TEX PAPER CONVERTING CORP.	09004708F	7530009908884	FOLDER FILE A PART	SWNR337D	38,150	23,805	23,653
THOM-TEX PAPER CONVERTING CORP.	09004708F	7530009908884	FOLDER FILE A PART	SWNR3571	40,150	25,053	24,893
THOM-TEX PAPER CONVERTING CORP.	09004708F	7530009908884	FOLDER FILE A PART	SWNR3984	39,550	24,679	24,521

SUMMARIES FOR BUS SIZE: D

TOT-NSN: 7
TOT PO'S: 7
TOT QTY: 382,200
TOT COST: 238,492
TOT SELL: 236,964

SUMMARIES FOR RPT OFF: H

TOT-NSN: 7
TOT PO'S: 7
TOT QTY: 382,200
TOT COST: 238,492
TOT SELL: 236,964

RPT OFF: J

BUS SIZE: D

VENDOR	CECC	NSN	DESCRIPTION	PO NO	QTY	COST PRICE	SELL PRICE
MARATHON WATCH CO., LTD.	2022/7358	6645011064403	STOPWATCH, DIGITAL,	FWV33941	650	3,250	3,250
MARATHON WATCH CO., LTD.	2022/7358	6645011064403	STOPWATCH, DIGITAL	FWV33731	950	4,750	4,750
MARATHON WATCH CO., LTD.	2022/7358	6680006413206	COUNTER,RECIPROCATI	NWV37161	500	2,125	2,125
MARATHON WATCH CO., LTD.	2022/7358	6680006413206	COUNTER,RECIPROCATI	SWV35702	600	2,550	2,550
MARATHON WATCH CO., LTD.	2022/7358	6680006413206	COUNTER,RECIPROCATI	SWV32851	700	2,975	2,975
MARATHON WATCH CO., LTD.	2022/7358	6680006413206	COUNTER,RECIPROCATI	SWV30311	600	2,550	2,550
MARATHON WATCH CO., LTD.	2022/7358	6680006413206	COUNTER,RECIPROCATI	FWV33441	500	2,125	34,500
MARATHON WATCH CO., LTD.	2022/7358	6680006413206	COUNTER,RECIPROCATI	FWV35701	600	2,550	2,550
MARATHON WATCH CO., LTD.	2022/7358	6680006413206	COUNTER,RECIPROCATI	NWV36051	500	2,125	2,125
MARATHON WATCH CO., LTD.	2022/7358	6680006413206	COUNTER,RECIPROCATI	NWV33901	400	1,700	1,700

SUMMARIES FOR BUS SIZE: D

TOT-NSN: 10
TOT PO'S: 10
TOT QTY: 6,000
TOT COST: 26,700
TOT SELL: 59,075

BUS SIZE: E

VENDOR	CECC	NSN	DESCRIPTION	PO NO	QTY	COST PRICE	SELL PRICE
TECH LINE INC.	0073/1904	7420011745218	CALCULATING MACHINE, TEX	JPNB250451	6	246	252
TECH LINE INC.	0073/1904	7420011745218	CALCULATING MACHINE, TEX	JPNB250521	2	82	84
TECH LINE INC.	0073/1904	7420011745218	CALCULATING MACHINE, TEX	JPNB254281	4	164	168
TECH LINE INC.	0073/1904	7420011745218	CALCULATING MACHINE, TEX	JPNB256031	2	82	84
TECH LINE INC.	0073/1904	7420011745218	CALCULATING MACHINE, TEX	JPNE235211	2	82	84
TECH LINE INC.	0073/1904	7420011745218	CALCULATING MACHINE, TEX	JPNB247651	5	205	210
TECH LINE INC.	0073/1904	7420011745218	CALCULATING MACHINE, TEX	JPNB248001	2	82	84
TECH LINE INC.	0073/1904	7420011745218	CALCULATING MACHINE, TEX	JPNB248511	2	82	84
TECH LINE INC.	0073/1904	7420011745218	CALCULATING MACHINE, TEX	JPNB248521	2	82	84
TECH LINE INC.	0073/1904	7420011745218	CALCULATING MACHINE, TEX	JPNB249341	5	205	210
TECH LINE INC.	0073/1904	7420011745218	CALCULATING MACHINE, TEX	JPNB249351	2	82	84
TECH LINE INC.	0073/1904	7420011745218	CALCULATING MACHINE, TEX	JPNE264801	4	164	168
TECH LINE INC.	0073/1904	7420011745218	CALCULATING MACHINE, TEX	JPNB256061	6	246	252
TECH LINE INC.	0073/1904	7420011745218	CALCULATING MACHINE, TEX	JPNB256661	2	82	84
TECH LINE INC.	0073/1904	7420011745218	CALCULATING MACHINE, TEX	JPNB256881	2	82	84

/ENDOR	CECC	NSN	DESCRIPTION	PO NO	QTY	COST PRICE	SELL PRICE
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB257081	4	164	168
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB257111	6	246	252
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB257131	2	82	84
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNE246741	3	123	126
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB258641	4	164	168
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB258871	2	82	84
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB257851	2	82	84
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB258081	12	492	504
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB263291	6	246	252
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB263271	6	246	252
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB264281	5	205	210
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB262821	2	82	84
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB263231	2	82	84
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB263261	3	123	126
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB260161	2	82	84
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB260851	2	82	84
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB261041	3	123	126
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB261051	2	82	84
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNE246811	4	164	168
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB266761	2	82	84
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB266321	6	246	252
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB266651	6	246	252
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB265381	1	41	42
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB265591	4	164	168
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB264391	3	123	126
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB264651	6	246	252
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB264671	3	123	126
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB265361	2	82	84
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB265371	2	82	84
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB265371	1	41	42
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB265381	1	41	42
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB267231	4	164	168
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB267611	2	82	84
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB267621	18	738	756
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB267631	2	82	84
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB267641	5	205	210
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB267651	1	41	42
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB267651	1	41	42
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB267841	70	2,870	2,942
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB268501	2	82	84
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB268621	12	492	504
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB268881	7	287	294
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPSA257911	270	11,070	11,070
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB239251	3	123	126
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB239141	2	82	84
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB239221	2	82	84
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB238801	2	82	84
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB238811	2	82	84
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB239711	2	82	84

VENDOR	CECC	NSN	DESCRIPTION	PO NO	QTY	COST PRICE	SELL PRICE
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB240241	1	82	84
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB240251	2	82	84
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB240271	2	82	84
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB240281	2	82	84
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB240291	2	82	84
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB240411	2	82	84
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB240421	2	82	84
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB240431	2	82	84
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB240511	3	123	126
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB241481	1	82	84
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB241651	2	82	84
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB241661	2	82	84
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB241881	3	123	126
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB241901	5	205	210
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB242611	1	82	84
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB242631	1	82	84
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB242641	8	328	336
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNE226571	4	164	168
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB238081	1	82	84
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB237771	3	123	126
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB237991	1	82	84
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB236741	2	82	84
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB236751	7	287	294
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB237421	3	123	126
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB237521	1	82	84
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB235141	3	123	126
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB235121	1	82	84
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB235131	6	246	252
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB233821	2	82	84
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB234841	2	82	84
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB234861	2	82	84
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB235121	1	41	42
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JFSA252871	464	19,024	19,024
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JFSA272141	200	8,200	8,200
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB230661	1	82	84
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB230671	6	246	252
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB231901	2	82	84
TECH LINE INC.	00732 1904	7420011745218	CALCULATING MACHINE, TEX	JPNB230081	2	82	84
TEXAS INSTRUMENTS INC.	02031 4365	7420011745218	CALCULATING MACHINE, TEX	JPNB202531	1	88	90
TEXAS INSTRUMENTS INC.	02031 4365	7420011745218	CALCULATING MACHINE, TEX	JPNB202541	2	88	90
TEXAS INSTRUMENTS INC.	02031 4365	7420011745218	CALCULATING MACHINE, TEX	JPNB200261	2	88	90
TEXAS INSTRUMENTS INC.	02031 4365	7420011745218	CALCULATING MACHINE, TEX	JPNB200241	2	88	90
TEXAS INSTRUMENTS INC.	02031 4365	7420011745218	CALCULATING MACHINE, TEX	JPNB200251	2	88	90
TEXAS INSTRUMENTS INC.	02031 4365	7420011745218	CALCULATING MACHINE, TEX	JPNB200151	10	440	451
TEXAS INSTRUMENTS INC.	02031 4365	7420011745218	CALCULATING MACHINE, TEX	JPNB100271	3	132	135
TEXAS INSTRUMENTS INC.	02031 4365	7420011745218	CALCULATING MACHINE, TEX	JPNB100301	1	88	90
TEXAS INSTRUMENTS INC.	02031 4365	7420011745218	CALCULATING MACHINE, TEX	JPNE200111	1	88	90
TEXAS INSTRUMENTS INC.	02031 4365	7420011745218	CALCULATING MACHINE, TEX	JPNB208861	1	88	90
TEXAS INSTRUMENTS INC.	02031 4365	7420011745218	CALCULATING MACHINE, TEX	JPNB200171	3	132	135

VENDOR	CECC	NSN	DESCRIPTION	PO NO	QTY	COST PRICE	SELL PRICE
TEXAS INSTRUMENTS INC.	020314365	7420011745218	CALCULATING MACHINE, TEX	JPNE200121	2	88	90
TEXAS INSTRUMENTS INC.	020314365	7420011745218	CALCULATING MACHINE, TEX	JPNB204921	2	88	90
TEXAS INSTRUMENTS INC.	020314365	7420011745218	CALCULATING MACHINE, TEX	JPNB226301	2	88	90
TEXAS INSTRUMENTS INC.	020314365	7420011745218	CALCULATING MACHINE, TEX	JPNB203021	4	176	180
TEXAS INSTRUMENTS INC.	020314365	7420011745218	CALCULATING MACHINE, TEX	JPNB203521	2	88	90
TEXAS INSTRUMENTS INC.	020314365	7420011745218	CALCULATING MACHINE, TEX	JPNB203541	2	88	90
TEXAS INSTRUMENTS INC.	020314365	7420011745218	CALCULATING MACHINE, TEX	JPNB203571	2	88	90
TEXAS INSTRUMENTS INC.	020314365	7420011745218	CALCULATING MACHINE, TEX	JPNB219831	2	88	90
TEXAS INSTRUMENTS INC.	020314365	7420011745218	CALCULATING MACHINE, TEX	JPNB208871	4	176	180
TEXAS INSTRUMENTS INC.	020314365	7420011745218	CALCULATING MACHINE, TEX	JPNB224941	2	88	90
TEXAS INSTRUMENTS INC.	020314365	7420011745218	CALCULATING MACHINE, TEX	JPNB224921	2	88	90
TEXAS INSTRUMENTS INC.	020314365	7420011745218	CALCULATING MACHINE, TEX	JPNB224931	2	88	90
TEXAS INSTRUMENTS INC.	020314365	7420011745218	CALCULATING MACHINE, TEX	JPNB100261	8	352	360
TEXAS INSTRUMENTS INC.	020314365	7420011745218	CALCULATING MACHINE, TEX	JPNB100231	2	88	90
TEXAS INSTRUMENTS INC.	020314365	7420011745218	CALCULATING MACHINE, TEX	JPNB100251	10	440	451
TEXAS INSTRUMENTS INC.	020314365	7420011745218	CALCULATING MACHINE, TEX	JPNE203781	5	220	225
TEXAS INSTRUMENTS INC.	020314365	7420011745218	CALCULATING MACHINE, TEX	JPSA225411	772	33,968	33,968
TEXAS INSTRUMENTS INC.	020314365	7420011422464	CALCULATING MACHINE	JPNB225841	3	207	327
TEXAS INSTRUMENTS INC.	020314365	7420010398701	CALCULATOR, TEXAS INSTR	JPNB200041	2	88	96
TEXAS INSTRUMENTS INC.	020314365	7420005005922	CALCULATOR, NONLISTING,	JPNB100221	2	88	90
TEXAS INSTRUMENTS INC.	020314365	7420005005922	CALCULATOR, NONLISTING,	JPNB223961	2	88	90
TEXAS INSTRUMENTS INC.	020314365	7420005005922	CALCULATOR, NONLISTING,	JPNB202031	2	88	90
TEXAS INSTRUMENTS INC.	020314365	7420005005922	CALCULATOR, NONLISTING,	JPNB208641	2	88	90
TEXAS INSTRUMENTS INC.	020314365	7420005005922	CALCULATOR, NONLISTING,	JPNB207011	5	220	225
TEXAS INSTRUMENTS INC.	020314365	7420005005922	CALCULATOR, NONLISTING,	JPNB223951	2	88	90
TEXAS INSTRUMENTS INC.	020314365	7420001621489	CALCULATING MACHINE, FAC	JPNE223971	2	88	90
TEXAS INSTRUMENTS INC.	020314365	7420012022248	CALCULATING MACHINE	JPNE207221	3	132	135
TEXAS INSTRUMENTS INC.	020314365	7420012022248	CALCULATING MACHINE	JPNE211471	2	88	90
TEXAS INSTRUMENTS INC.	020314365	7420011828535	CALCULATING MACHINE	JPNB225601	8	97	99
TEXAS INSTRUMENTS INC.	020314365	7420011828535	CALCULATING MACHINE	JPNE223881	5	60	62
TEXAS INSTRUMENTS INC.	020314365	7420011828534	CALCULATING MACHINES CAS	JPNB203821	10	92	94
TEXAS INSTRUMENTS INC.	020314365	7420011828534	CALCULATING MACHINES CAS	JPNB223981	10	92	94
TEXAS INSTRUMENTS INC.	020314365	7420011828534	CALCULATING MACHINES CAS	JPNB226591	6	55	56
TEXAS INSTRUMENTS INC.	020314365	7420011828532	CALCULATING MACHINE,	JPNB208981	5	60	62
TEXAS INSTRUMENTS INC.	020314365	7420011828532	CALCULATING MACHINE,	JPNB202451	45	546	560
TEXAS INSTRUMENTS INC.	020314365	7420011828532	CALCULATING MACHINE,	JPNE211391	40	486	498
TEXAS INSTRUMENTS INC.	020314365	7420011828532	CALCULATING MACHINE,	JPNE222321	5	60	62
TEXAS INSTRUMENTS INC.	020314365	7420011828532	CALCULATING MACHINE,	JPNE211501	10	121	124
TEXAS INSTRUMENTS INC.	020314365	7420011745226	CALCULATING MACHINE FACI	JPNE225771	10	528	541
TEXAS INSTRUMENTS, INC	55718715A	7420011828534	CALCULATING MACHINES CAS	JPNB241681	6	54	56
VICTOR TECHNOLOGY INC.	004225363	7420011745220	CALCULATING MACHINE, ADL	JPNB208111	12	912	934
VICTOR TECHNOLOGY INC.	004225363	7420011745220	CALCULATING MACHINE, ADL	JPNB200161	8	608	623
VICTOR TECHNOLOGY INC.	004225363	7420011745220	CALCULATING MACHINE, ADL	JPNB208821	3	228	233
VICTOR TECHNOLOGY INC.	004225363	7420011745220	CALCULATING MACHINE, ADL	JPNB200181	1	76	77
VICTOR TECHNOLOGY INC.	004225363	7420011745220	CALCULATING MACHINE, ADL	JPNE208671	1	76	77
VICTOR TECHNOLOGY INC.	004225363	7420011745220	CALCULATING MACHINE, ADL	JPNB200191	3	228	233
VICTOR TECHNOLOGY INC.	004225363	7420011745220	CALCULATING MACHINE, ADL	JPNE225901	1	76	77
VICTOR TECHNOLOGY INC.	004225363	7420011745220	CALCULATING MACHINE, ADL	JPNE209111	1	76	77
VICTOR TECHNOLOGY INC.	004225363	7420011745220	CALCULATING MACHINE, ADL	JPNB203371	5	380	389

VENDOR	CECC	NSN	DESCRIPTION	PO NO	QTY	COST PRICE	SELL PRICE
VICTOR TECHNOLOGY INC.	004224368	7420011745220	CALCULATING MACHINE, ADL	JPNB226341	1	76	77
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB252431	6	246	252
ADLER ROYAL BUSINESS MACHINES	606508745	7430004619594	TYPEWRITER,ELECTRIC 15"	JPNE225891	1	524	537
ADLER ROYAL BUSINESS MACHINES	606508745	7430004619594	TYPEWRITER,ELECTRIC 15"	JPNE225851	2	1,048	1,074
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB251881	9	369	378
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB251871	9	369	378
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB250661	5	205	210
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB250651	6	246	252
ADLER ROYAL BUSINESS MACHINES	606508745	7430004619594	TYPEWRITER,ELECTRIC 15"	JPNE231051	1	524	537
ADLER ROYAL BUSINESS MACHINES	606508745	7430004619594	TYPEWRITER,ELECTRIC 15"	JPNE201101	1	524	537
ADLER ROYAL BUSINESS MACHINES	606508745	7430004619594	TYPEWRITER,ELECTRIC 15"	JPNE231861	1	524	537
ADLER ROYAL BUSINESS MACHINES	606508745	7430004619594	TYPEWRITER,ELECTRIC 15"	JPNE247381	1	524	537
ADLER ROYAL BUSINESS MACHINES	606508745	7430004619594	TYPEWRITER,ELECTRIC 15"	JPNE201301	1	524	537
ADLER ROYAL BUSINESS MACHINES	606508745	7430004619594	TYPEWRITER,ELECTRIC 15"	JPNE201291	3	1,572	1,611
ADLER ROYAL BUSINESS MACHINES	606508745	7430004619594	TYPEWRITER,ELECTRIC 15"	JPNE230161	10	5,240	5,371
ADLER ROYAL BUSINESS MACHINES	606508745	7430004619594	TYPEWRITER,ELECTRIC 15"	JPNE234151	1	524	537
ADLER ROYAL BUSINESS MACHINES	606508745	7430004619594	TYPEWRITER,ELECTRIC 15"	JPNE234171	2	1,048	1,074
ADLER ROYAL BUSINESS MACHINES	606508745	7430004619594	TYPEWRITER,ELECTRIC 15"	JPNE204751	5	2,620	2,685
ADLER ROYAL BUSINESS MACHINES	606508745	7430004619594	TYPEWRITER,ELECTRIC 15"	JPNE246501	2	1,048	1,074
ADLER ROYAL BUSINESS MACHINES	606508745	7430004619594	TYPEWRITER,ELECTRIC 15"	JPNE246491	2	1,048	1,074
ADLER ROYAL BUSINESS MACHINES	606508745	7430004619594	TYPEWRITER,ELECTRIC 15"	JPNE201091	1	524	537
ADLER ROYAL BUSINESS MACHINES	606508745	7430004619594	TYPEWRITER,ELECTRIC 15"	JPNE201001	1	524	537
ADLER ROYAL BUSINESS MACHINES	606508745	7430004619594	TYPEWRITER,ELECTRIC 15"	JPNE201311	1	524	537
ADLER ROYAL BUSINESS MACHINES	606508745	7430004619594	TYPEWRITER,ELECTRIC 15"	JPNE243421	1	524	537
ADLER ROYAL BUSINESS MACHINES	606508745	7430002817051	ELECTRIC TYPEWRITER: AC,	JPNE238781	2	1,048	1,074
ADLER ROYAL BUSINESS MACHINES	606508745	7430002817051	ELECTRIC TYPEWRITER: AC,	JPNE243591	2	1,048	1,074
ADLER ROYAL BUSINESS MACHINES	606508745	7430001589725	TYPEWRITER	JPNF203351	1	524	537
ADLER ROYAL BUSINESS MACHINES	606508745	7430004619594	TYPEWRITER,ELECTRIC 15"	JPNE238071	1	524	537
ADLER ROYAL BUSINESS MACHINES	606508745	7430004619594	TYPEWRITER,ELECTRIC 15"	JPNE243441	1	524	537
ADLER ROYAL BUSINESS MACHINES	606508745	7430004619594	TYPEWRITER,ELECTRIC 15"	JPNE236331	4	2,096	2,148
ADLER ROYAL BUSINESS MACHINES	606508745	7430004619594	TYPEWRITER,ELECTRIC 15"	JPNE209131	1	524	537
ADLER ROYAL BUSINESS MACHINES	606508745	7430004619594	TYPEWRITER,ELECTRIC 15"	JPNE234141	2	1,048	1,074
ADLER ROYAL BUSINESS MACHINES	606508745	7430010438284	TYPEWRITER, ELECTRIC, AC	JPNE207581	4	2,096	2,148
ADLER ROYAL BUSINESS MACHINES	606508745	7430010745836	TYPEWRITER	JPNB248391	8	4,192	4,296
ADLER ROYAL BUSINESS MACHINES	606508745	7430011426942	TYPEWRITER,ELECTRIC 15"	JPNE211281	3	1,572	1,611
BROTHER INTERNATIONAL CORP.	064992902	7430011166035	IBM WHEELWRITER 3 TYPEWR	JPNF246401	1	211	216
BROTHER INTERNATIONAL CORP.	064992902	7430011166035	IBM WHEELWRITER 3 TYPEWR	JPNE273741	1	211	216
BROTHER INTERNATIONAL CORP.	064992902	7430011166035	IBM WHEELWRITER 3 TYPEWR	JPNE231241	9	1,900	1,948
BROTHER INTERNATIONAL CORP.	064992902	7430011166035	IBM WHEELWRITER 3 TYPEWR	JPNE232481	4	844	865
BROTHER INTERNATIONAL CORP.	064992902	7430011166035	IBM WHEELWRITER 3 TYPEWR	JPNE236691	16	3,379	3,463
BROTHER INTERNATIONAL CORP.	064992902	7430011166035	IBM WHEELWRITER 3 TYPEWR	JPNE263381	8	1,689	1,731
BROTHER INTERNATIONAL CORP.	064992902	7430011166035	IBM WHEELWRITER 3 TYPEWR	JPNF251971	2	422	432
BROTHER INTERNATIONAL CORP.	064992902	7430011166035	IBM WHEELWRITER 3 TYPEWR	JPNE264701	2	422	432
BROTHER INTERNATIONAL CORP.	064992902	7430011166035	IBM WHEELWRITER 3 TYPEWR	JPNE245751	4	844	865
BROTHER INTERNATIONAL CORP.	064992902	7430011166035	IBM WHEELWRITER 3 TYPEWR	JPNE244581	4	844	865
BROTHER INTERNATIONAL CORP.	064992902	7430011166035	IBM WHEELWRITER 3 TYPEWR	JPNE232391	3	633	649
BROTHER INTERNATIONAL CORP.	064992902	7430011166035	IBM WHEELWRITER 3 TYPEWR	JPNE232361	1	211	216
BROTHER INTERNATIONAL CORP.	064992902	7430011166035	IBM WHEELWRITER 3 TYPEWR	JPNE248411	2	422	432
BROTHER INTERNATIONAL CORP.	064992902	7430011166035	IBM WHEELWRITER 3 TYPEWR	JPNE251021	2	422	432

VENDOR	CECC	NSN	DESCRIPTION	PO NO	QTY	COST PRICE	SELL PRICE
BROTHER INTERNATIONAL CORP.	064992902	7430011166038	TYPEWRITER	JPNF245681	1	239	244
BROTHER INTERNATIONAL CORP.	064992902	7430012429306	TYPEWRITER	JPNF247811	2	478	489
BROTHER INTERNATIONAL CORP.	064992902	7430012429306	TYPEWRITER	JPNF266671	1	239	244
BROTHER INTERNATIONAL CORP.	064992902	7430012429306	TYPEWRITER	JPNF266741	1	239	244
BROTHER INTERNATIONAL CORP.	064992902	7430012429306	TYPEWRITER	JPNF237431	1	239	244
BROTHER INTERNATIONAL CORP.	064992902	7430012429306	TYPEWRITER	JPNF239271	4	956	979
BROTHER INTERNATIONAL CORP.	064992902	7430012429306	TYPEWRITER	JPNF269081	1	239	244
BROTHER INTERNATIONAL CORP.	064992902	7430012429306	TYPEWRITER	JPNF269091	1	239	244
BROTHER INTERNATIONAL CORP.	064992902	7430012429306	TYPEWRITER	JPNE248821	1	239	244
BROTHER INTERNATIONAL CORP.	064992902	7430012429306	TYPEWRITER	JPNE253151	3	717	734
BROTHER INTERNATIONAL CORP.	064992902	7430012429306	TYPEWRITER	JPNE232491	10	2,390	2,449
BROTHER INTERNATIONAL CORP.	064992902	7430012429306	TYPEWRITER	JPNE245981	2	478	489
BROTHER INTERNATIONAL CORP.	064992902	7430012429306	TYPEWRITER	JPNE248481	6	1,434	1,469
BROTHER INTERNATIONAL CORP.	064992902	7430012429306	TYPEWRITER	JPNE264981	4	956	979
BROTHER INTERNATIONAL CORP.	064992902	7430012429306	TYPEWRITER	JPNE266041	10	2,390	2,449
BROTHER INTERNATIONAL CORP.	064992902	7430012429306	TYPEWRITER	JPNE266971	1	239	244
BROTHER INTERNATIONAL CORP.	064992902	7430012429306	TYPEWRITER	JPNF253661	2	478	489
BROTHER INTERNATIONAL CORP.	064992902	7430012429306	TYPEWRITER	JPNE238511	20	4,780	4,899
BROTHER INTERNATIONAL CORP.	064992902	7430012429306	TYPEWRITER	JPNE260371	1	239	244
BROTHER INTERNATIONAL CORP.	064992902	7430012429306	TYPEWRITER	JPNE239701	3	717	734
BROTHER INTERNATIONAL CORP.	064992902	7430012429306	TYPEWRITER	JPNE239031	2	478	489
BROTHER INTERNATIONAL CORP.	064992902	7430012429306	TYPEWRITER	JPNF255561	1	239	244
BROTHER INTERNATIONAL CORP.	064992902	7430012429306	TYPEWRITER	JPNF255551	1	239	244
BROTHER INTERNATIONAL CORP.	064992902	7430012429306	TYPEWRITER	JPNE236221	1	239	244
BROTHER INTERNATIONAL CORP.	064992902	7430012429306	TYPEWRITER	JPNE257671	4	956	979
BROTHER INTERNATIONAL CORP.	064992902	7430011166035	IBM WHEELWRITER 3 TYPEWR	JPNE262591	1	211	216
BROTHER INTERNATIONAL CORP.	064992902	7430011166035	IBM WHEELWRITER 3 TYPEWR	JPNF241911	1	211	216
BROTHER INTERNATIONAL CORP.	064992902	7430011166035	IBM WHEELWRITER 3 TYPEWR	JPNE277171	2	422	432
BROTHER INTERNATIONAL CORP.	064992902	7430011166035	IBM WHEELWRITER 3 TYPEWR	JPNE277081	1	211	216
BROTHER INTERNATIONAL CORP.	064992902	7430011166035	IBM WHEELWRITER 3 TYPEWR	JPNE277081	3	633	649
BROTHER INTERNATIONAL CORP.	064992902	7430011166035	IBM WHEELWRITER 3 TYPEWR	JPNE274191	1	211	216
BROTHER INTERNATIONAL CORP.	064992902	7430011166035	IBM WHEELWRITER 3 TYPEWR	JPNE274221	2	422	432
BROTHER INTERNATIONAL CORP.	064992902	7430011166035	IBM WHEELWRITER 3 TYPEWR	JPNF276591	6	1,267	1,298
BROTHER INTERNATIONAL CORP.	064992902	7430011166035	IBM WHEELWRITER 3 TYPEWR	JPNE258941	3	633	649
BROTHER INTERNATIONAL CORP.	064992902	7430011166035	IBM WHEELWRITER 3 TYPEWR	JPNE229631	17	3,668	3,760
BROTHER INTERNATIONAL CORP.	064992902	7430011166035	IBM WHEELWRITER 3 TYPEWR	JPNE253831	2	422	432
BROTHER INTERNATIONAL CORP.	064992902	7430011166035	IBM WHEELWRITER 3 TYPEWR	JPNE254321	2	422	432
BROTHER INTERNATIONAL CORP.	064992902	7430011166035	IBM WHEELWRITER 3 TYPEWR	JPNE259071	2	422	432
BROTHER INTERNATIONAL CORP.	064992902	7430005015680	TYPEWRITER, ELECTRIC, IB	JPNE244691	3	1,395	1,429
BROTHER INTERNATIONAL CORP.	064992902	7430005015680	TYPEWRITER, ELECTRIC, IB	JPNE235151	1	465	476
BROTHER INTERNATIONAL CORP.	064992902	7430005015680	TYPEWRITER, ELECTRIC, IB	JPNE237551	10	4,650	4,766
BROTHER INTERNATIONAL CORP.	064992902	7430005015680	TYPEWRITER, ELECTRIC, IB	JPNE231961	1	465	476
BROTHER INTERNATIONAL CORP.	064992902	7430005015680	TYPEWRITER, ELECTRIC, IB	JPNE243411	1	465	476
BROTHER INTERNATIONAL CORP.	064992902	7430005015680	TYPEWRITER, ELECTRIC, IB	JPNE237471	1	465	476
BROTHER INTERNATIONAL CORP.	064992902	7430005015680	TYPEWRITER, ELECTRIC, IB	JPNE225001	1	465	476
BROTHER INTERNATIONAL CORP.	064992902	7430005015680	TYPEWRITER, ELECTRIC, IB	JPNE227331	2	930	953
BROTHER INTERNATIONAL CORP.	064992902	7430005015680	TYPEWRITER, ELECTRIC, IB	JPNE228131	2	930	953
BROTHER INTERNATIONAL CORP.	064992902	7430005015680	TYPEWRITER, ELECTRIC, IB	JPNF238581	1	465	476
CANON U.S.A., INC.	11710429K	07420008R0786	CALCULATOR 12 DIGIT	FWRH1531	3	567	567

VENDOR	CECC	NSN	DESCRIPTION	PO NO	QTY	COST PRICE	SELL PRICE
CANON U.S.A., INC.	11710429K	07420008R5853	OFFICE-CALCULATOR	FWRG9421	3	1,218	1,218
CANON U.S.A., INC.	11710429K	07420008R5953	CALCULATOR 7477	FWRG6711	1	406	406
CANON USA INC	116194192	7420012287442	CALCULATING MACHINE	JPNE258501	5	169	174
CANON USA INC	116194192	7420012287442	CALCULATING MACHINE	JPNF247831	20	679	696
CANON USA INC	116194192	7420012287442	CALCULATING MACHINE	JPNF232531	5	169	174
CANON USA INC	116194192	7420012287442	CALCULATING MACHINE	JPNF263601	2	67	69
CANON USA INC	116194192	7420012287442	CALCULATING MACHINE	JPNF237801	2	67	69
CANON USA INC.	041530692	7430001589725	TYPEWRITER	JPNF203361	3	1,651	1,692
CANON USA INC.	041530692	7430002673457	TYPEWRITER, ELECTRIC	JPNE211331	1	550	564
CANON USA INC.	041530692	7430004619594	TYPEWRITER,ELECTRIC 15"	JPNE245991	1	550	564
CANON USA INC.	041530692	7430004619594	TYPEWRITER,ELECTRIC 15"	JPNE244211	1	550	564
CANON USA INC.	041530692	7430004619594	TYPEWRITER,ELECTRIC 15"	JPNE203671	1	550	564
CANON USA INC.	041530692	7430004619594	TYPEWRITER,ELECTRIC 15"	JPNE236351	9	4,954	5,078
CANON USA INC.	041530692	7430004619594	TYPEWRITER,ELECTRIC 15"	JPNE230071	2	1,101	1,128
CANON USA INC.	041530692	7430004619594	TYPEWRITER,ELECTRIC 15"	JPNE209121	2	1,101	1,128
CANON USA INC.	041530692	7430004619594	TYPEWRITER,ELECTRIC 15"	JPNE225861	4	2,202	2,257
CANON USA INC.	041530692	7430004619594	TYPEWRITER,ELECTRIC 15"	JPNE248011	1	550	564
CANON USA INC.	041530692	7430004619594	TYPEWRITER,ELECTRIC 15"	JPNE250251	2	1,101	1,128
CANON USA INC.	041530692	7430004619594	TYPEWRITER,ELECTRIC 15"	JPNE203641	1	550	564
CANON USA INC.	041530692	7430004619594	TYPEWRITER,ELECTRIC 15"	JPNE203651	1	550	564
CANON USA INC.	041530692	7430004619594	TYPEWRITER,ELECTRIC 15"	JPNE206581	2	1,101	1,128
CANON USA INC.	041530692	7430004619594	TYPEWRITER,ELECTRIC 15"	JPNE206511	2	1,101	1,128
CANON USA INC.	041530692	7430004619594	TYPEWRITER,ELECTRIC 15"	JPNE206571	2	1,101	1,128
CANON USA INC.	041530692	7430004619594	TYPEWRITER,ELECTRIC 15"	JPNE201321	1	550	564
CANON USA INC.	041530692	7430004619594	TYPEWRITER,ELECTRIC 15"	JPNE201161	5	2,752	2,821
CANON USA INC.	041530692	7430004619594	TYPEWRITER,ELECTRIC 15"	JPNE236341	1	550	564
CANON USA INC.	041530692	7430004619594	TYPEWRITER,ELECTRIC 15"	JPNE231951	1	550	564
CANON USA INC.	041530692	7430004619594	TYPEWRITER,ELECTRIC 15"	JPNE201191	1	550	564
CANON USA INC.	041530692	7430004619594	TYPEWRITER,ELECTRIC 15"	JPNE201251	2	1,101	1,128
CANON USA INC.	041530692	7430004619594	TYPEWRITER,ELECTRIC 15"	JPNE201121	1	550	564
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB249391	4	164	168
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB249371	2	82	84
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB250041	2	82	84
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNE242581	3	123	126
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPSA276881	464	19,024	19,024
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB243841	5	205	210
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNE227751	2	82	84
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPSA272131	160	6,560	6,560
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNE272171	8	328	336
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNE257841	10	410	420
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNE240491	2	82	84
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNE254331	3	123	126
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNE253491	2	82	84
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNE253821	3	123	126
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPSA229711	464	19,024	19,024
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNE248061	3	123	126
TECH LINE INC.	007321904	7420011745221	PORTABLE, DESKTOP	JPNB269101	2	53	55
TECH LINE INC.	007321904	7420011745221	PORTABLE, DESKTOP	JPNB270901	2	53	55
TECH LINE INC.	007321904	7420011745221	PORTABLE, DESKTOP	JPNB271781	3	80	82

VENDOR	CECC	NSN	DESCRIPTION	PO NO	QTY	COST PRICE	SELL PRICE
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPSA265011	480	19,680	19,680
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNE257591	3	123	126
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNE230701	2	82	84
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNE230731	5	205	210
TECH LINE INC.	007321904	7420005005922	CALCULATOR, NONLISTING,	JPNB259821	2	82	84
TECH LINE INC.	007321904	7420005005922	CALCULATOR, NONLISTING,	JPNB259841	3	123	126
TECH LINE INC.	007321904	7420005005922	CALCULATOR, NONLISTING,	JPNE241431	2	82	84
TECH LINE INC.	007321904	7420005005922	CALCULATOR, NONLISTING,	JPNB264061	18	738	756
TECH LINE INC.	007321904	7420005005922	CALCULATOR, NONLISTING,	JPNB267201	2	82	84
TECH LINE INC.	007321904	7420005005922	CALCULATOR, NONLISTING,	JPNB236671	2	82	84
TECH LINE INC.	007321904	7420005005922	CALCULATOR, NONLISTING,	JPNB238421	2	82	84
TECH LINE INC.	007321904	7420005005922	CALCULATOR, NONLISTING,	JPNB226841	30	1,230	1,260
TECH LINE INC.	007321904	7420010398701	CALCULATOR, TEXAS INSTR	JPNB239601	2	82	90
TECH LINE INC.	007321904	7420010398701	CALCULATOR, TEXAS INSTR	JPNB256541	2	82	90
TECH LINE INC.	007321904	7420011745221	PORTABLE, DESKTOP	JPNB244181	2	53	55
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNF264841	2	82	84
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNE244031	3	123	126
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNE229081	2	82	84
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPSA242651	200	8,200	8,200
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNE262611	3	123	126
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB244011	4	164	168
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB244051	2	82	84
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB244061	2	82	84
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB244221	4	164	168
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB244261	3	123	126
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB244351	2	82	84
TECH LINE INC.	007321904	7420011745221	PORTABLE, DESKTOP	JPNF269121	2	53	55
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB246531	2	82	84
TECH LINE INC.	007321904	7420011745221	PORTABLE, DESKTOP	JPNB232441	2	53	55
TECH LINE INC.	007321904	7420011745221	PORTABLE, DESKTOP	JPNE231021	4	107	110
TECH LINE INC.	007321904	7420011745221	PORTABLE, DESKTOP	JPNB245921	2	53	55
TECH LINE INC.	007321904	7420011745221	PORTABLE, DESKTOP	JPNB251731	10	268	275
TECH LINE INC.	007321904	7420011745221	PORTABLE, DESKTOP	JPNB252251	4	107	110
TECH LINE INC.	007321904	7420011745221	PORTABLE, DESKTOP	JPNE253141	3	80	82
TECH LINE INC.	007321904	7420011745221	PORTABLE, DESKTOP	JPNB243611	2	53	55
TECH LINE INC.	007321904	7420011745221	PORTABLE, DESKTOP	JPNE248791	2	53	55
TECH LINE INC.	007321904	7420011745221	PORTABLE, DESKTOP	JPNE248051	10	268	275
TECH LINE INC.	007321904	7420011745221	PORTABLE, DESKTOP	JPNB257101	2	53	55
TECH LINE INC.	007321904	7420005005922	CALCULATOR, NONLISTING,	JPNE267091	3	123	126
TECH LINE INC.	007321904	7420011745221	PORTABLE, DESKTOP	JPNB260361	4	107	110
TECH LINE INC.	007321904	7420011745221	PORTABLE, DESKTOP	JPNB265401	3	80	82
TECH LINE INC.	007321904	7420011745221	PORTABLE, DESKTOP	JPNB266221	2	53	55
TECH LINE INC.	007321904	7420011745221	PORTABLE, DESKTOP	JPNB267751	2	53	55
TECH LINE INC.	007321904	7420011745221	PORTABLE, DESKTOP	JPNB268081	2	53	55
TECH LINE INC.	007321904	7420011745221	PORTABLE, DESKTOP	JPNB268611	12	322	330
TECH LINE INC.	007321904	7420011745221	PORTABLE, DESKTOP	JPNB268531	2	53	55
TECH LINE INC.	007321904	7420005005922	CALCULATOR, NONLISTING,	JPNE270671	2	82	84
TECH LINE INC.	007321904	7420005005922	CALCULATOR, NONLISTING,	JPNE261001	2	82	84
TECH LINE INC.	007321904	7420005005922	CALCULATOR, NONLISTING,	JPNE261011	2	82	84

VENDOR	CECC	NSN	DESCRIPTION	PO NO	QTY	COST PRICE	SELL PRICE
TECH LINE INC.	007321904	7420005005922	CALCULATOR, NONLISTING,	JPNB248101	20	820	840
TECH LINE INC.	007321904	7420005005922	CALCULATOR, NONLISTING,	JPNB250331	10	410	420
TECH LINE INC.	007321904	7420005005922	CALCULATOR, NONLISTING,	JPNB258601	16	656	672
CANON USA INC.	041530692	7430010432284	TYPEWRITER, ELECTRIC, AC	JPNE243581	3	1,651	1,692
CANON USA INC.	041530692	7430010432284	TYPEWRITER, ELECTRIC, AC	JPNE207591	4	2,202	2,257
CANON USA INC.	041530692	7430010432284	TYPEWRITER, ELECTRIC, AC	JPNE238771	3	1,651	1,692
OLIVETTI USA	001221447	7430010491764	TYPEWRITER, ELEC, RADIO	JPNB246261	1	525	538
SHARP ELECTRONICS CORPORATION	001818012	7420011751545	CALCULATING MACHINE	JPNB203511	1	74	75
SHARP ELECTRONICS CORPORATION	148084718	7490006339896	ELECTRONIC CASH	JPNE208421	1	839	860
SHARP ELECTRONICS CORPORATION	148084718	7490006339896	ELECTRONIC CASH	JPNE208431	1	839	860
SHARP ELECTRONICS CORPORATION	148084718	7490006339896	ELECTRONIC CASH	JPNE202851	1	839	860
SHARP ELECTRONICS CORPORATION	148084718	7490011086665	CASH REGISTER	JPNE236291	1	839	860
SHARP ELECTRONICS CORPORATION	148084718	7490003601753	CASH REGISTER	JPNE243571	1	839	860
SHARP ELECTRONICS CORPORATION	148084718	7490006339896	ELECTRONIC CASH	JPNE208381	1	839	860
SHARP ELECTRONICS CORPORATION	148084718	7420002396822	CALCULATING MACHINE SHAR	JPNE243061	20	4,474	4,586
SHARP ELECTRONICS CORPORATION	148084718	7420002396822	CALCULATING MACHINE SHAR	JPNE235171	30	6,711	6,879
SHARP ELECTRONICS CORPORATION	148084718	7420002396822	CALCULATING MACHINE SHAR	JPNE244041	10	2,237	2,293
SHARP ELECTRONICS CORPORATION	002828118	7420002646931	ADD & SUBTRACT MACHINE,	JPNE268071	1	183	187
SHARP ELECTRONICS CORPORATION	148084718	7420002956068	CALCULATING MACHINE, SHA	JPNE200101	5	1,118	1,146
SHARP ELECTRONICS CORPORATION	001818012	7420011745221	PORTABLE, DESKTOP	JPNB226771	3	80	82
SHARP ELECTRONICS CORPORATION	001818012	7420011745221	PORTABLE, DESKTOP	JPNB225271	2	53	55
SHARP ELECTRONICS CORPORATION	001818012	7420011745221	PORTABLE, DESKTOP	JPNE208411	1	26	27
SHARP ELECTRONICS CORPORATION	001818012	7420011745221	PORTABLE, DESKTOP	JPNE208411	2	53	55
SHARP ELECTRONICS CORPORATION	148084718	7420002956068	CALCULATING MACHINE, SHA	JPNE227711	6	1,342	1,375
SHARP ELECTRONICS CORPORATION	001818012	7420011745221	PORTABLE, DESKTOP	JPNB202791	3	80	82
SHARP ELECTRONICS CORPORATION	148084718	7420002956068	CALCULATING MACHINE, SHA	JPNE248801	7	1,566	1,605
SHARP ELECTRONICS CORPORATION	148084718	7420002956068	CALCULATING MACHINE, SHA	JPNE248781	2	447	458
SHARP ELECTRONICS CORPORATION	148084718	7420002956068	CALCULATING MACHINE, SHA	JPNE202811	1	223	229
SHARP ELECTRONICS CORPORATION	148084718	7420002956068	CALCULATING MACHINE, SHA	JPNE100191	2	447	458
SHARP ELECTRONICS CORPORATION	148084718	7420002956068	CALCULATING MACHINE, SHA	JPNE200071	1	223	229
SHARP ELECTRONICS CORPORATION	148084718	7420002956068	CALCULATING MACHINE, SHA	JPNE244201	8	1,789	1,834
SHARP ELECTRONICS CORPORATION	148084718	7420002956068	CALCULATING MACHINE, SHA	JPNE234131	5	1,118	1,146
SHARP ELECTRONICS CORPORATION	148084718	7420002956068	CALCULATING MACHINE, SHA	JPNE201231	1	223	229
SHARP ELECTRONICS CORPORATION	148084718	7420002956068	CALCULATING MACHINE, SHA	JPNE244571	1	223	229
SHARP ELECTRONICS CORPORATION	148084718	7420002956068	CALCULATING MACHINE, SHA	JPNE227761	1	223	229
SHARP ELECTRONICS CORPORATION	148084718	7420002956068	CALCULATING MACHINE, SHA	JPNE244561	1	223	229
SHARP ELECTRONICS CORPORATION	148084718	7420011496682	CALCULATING MACHINE SHAR	JPNE211991	2	365	374
SHARP ELECTRONICS CORPORATION	148084718	7420011496682	CALCULATING MACHINE SHAR	JPNE238791	1	182	187
SHARP ELECTRONICS CORPORATION	148084718	7420011496682	CALCULATING MACHINE SHAR	JPNE236591	2	365	374
SHARP ELECTRONICS CORPORATION	002828118	7420011496682	CALCULATING MACHINE SHAR	JPNE258211	2	366	375
SONY CORPORATION OF AMERICA	106799802	7420011745218	CALCULATING MACHINE, TEX	JPNE222381			
SONY CORPORATION OF AMERICA	106799802	7420011745218	CALCULATING MACHINE, TEX	JPNB223661			
SONY CORPORATION OF AMERICA	106799802	7420011745218	CALCULATING MACHINE, TEX	JPNB223631			
SONY CORPORATION OF AMERICA	106799802	7420011745218	CALCULATING MACHINE, TEX	JPNE222411			
SWINTEC CORPORATION	120842174	7430012429306	TYPEWRITER	JPNE231251	1	299	306
SWINTEC CORPORATION	120842174	7430012429306	TYPEWRITER	JPNE225201	1	299	306
SWINTEC CORPORATION	039263546	7430012582497	TYPEWRITER	JPNF223641	1	692	709
SWINTEC CORPORATION	039263546	7430012582497	TYPEWRITER	JPNF235611	1	692	709
SWINTEC CORPORATION	039263546	7430012582497	TYPEWRITER	JPNF232511	1	692	709

VENDOR	CECC	NSN	DESCRIPTION	PO NO	QTY	COST PRICE	SELL PRICE
SWINTEC CORPORATION	039263546	7430012582497	TYPEWRITER	JPNF247871	1	692	709
TECH LINE	06630459D	07420008R5760	CALCULATOR ELF 7250	FWRG6211	2	225	225
TECH LINE INC.	007321904	7420011745221	PORTABLE, DESKTOP	JPNE231311	2	53	55
TECH LINE INC.	007321904	7420011745221	PORTABLE, DESKTOP	JPNB242661	3	80	82
TECH LINE INC.	007321904	7420011745221	PORTABLE, DESKTOP	JPNB243471	2	53	55
TECH LINE INC.	007321904	7420011745221	PORTABLE, DESKTOP	JPNB242621	2	53	55
TECH LINE INC.	007321904	7420011745221	PORTABLE, DESKTOP	JPNB240561	2	53	55
TECH LINE INC.	007321904	7420011745221	PORTABLE, DESKTOP	JPNB241451	2	53	55
TECH LINE INC.	007321904	7420011745221	PORTABLE, DESKTOP	JPNB238731	2	53	55
TECH LINE INC.	007321904	7420011745226	CALCULATING MACHINE FACI	JPNE244491	13	533	546
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB246811	4	164	168
TECH LINE INC.	007321904	7420011745226	CALCULATING MACHINE FACI	JPNE266821	14	574	588
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB273201	44	1,804	1,849
TECH LINE INC.	007321904	7420011828531	CALCULATING MACHINE	JPNE269331	25	229	234
TECH LINE INC.	007321904	7420011828531	CALCULATING MACHINE	JPNB269161	10	91	93
TECH LINE INC.	007321904	7420011828532	CALCULATING MACHINE,	JPNB270541	10	120	123
TECH LINE INC.	007321904	7420011828532	CALCULATING MACHINE,	JPNB271791	10	120	123
TECH LINE INC.	007321904	7420011828532	CALCULATING MACHINE,	JPNB271801	5	60	61
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB273211	4	164	168
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB273571	3	123	126
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB273811	23	943	966
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB275491	2	82	84
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB275521	3	123	126
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB275541	22	902	924
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB276441	2	82	84
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB244971	2	82	84
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB245091	5	205	210
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB269071	25	1,025	1,050
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB269461	2	82	84
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB270371	8	328	336
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB270911	2	82	84
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB270931	8	328	336
TECH LINE INC.	007321904	7420011828532	CALCULATING MACHINE,	JPNB267761	138	1,656	1,697
TECH LINE INC.	007321904	7420011828534	CALCULATING MACHINES CAS	JPNB264881	50	458	469
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB270941	2	82	84
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB270951	6	246	252
TECH LINE INC.	007321904	7420011828534	CALCULATING MACHINES CAS	JPNB258371	6	54	56
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB271181	3	123	126
TECH LINE INC.	007321904	7420011828534	CALCULATING MACHINES CAS	JPNB259911	12	109	112
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB272111	8	328	336
TECH LINE INC.	007321904	7420011828534	CALCULATING MACHINES CAS	JPNE272721	10	91	93
TECH LINE INC.	007321904	7420011828534	CALCULATING MACHINES CAS	JPNB229641	12	109	112
TECH LINE INC.	007321904	7420011828534	CALCULATING MACHINES CAS	JPNB225281	6	54	56
TECH LINE INC.	007321904	7420011828534	CALCULATING MACHINES CAS	JPNB244981	15	137	140
TECH LINE INC.	007321904	7420011828534	CALCULATING MACHINES CAS	JPNB233731	3	27	28
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB272291			
TECH LINE INC.	007321904	7420011828535	CALCULATING MACHINE	JPNB238541	6	72	73
TECH LINE INC.	007321904	7420011828535	CALCULATING MACHINE	JPNB246681	50	600	615
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB272441	2	82	84

VENDOR	CECC	NSN	DESCRIPTION	PO NO	WTY	COST PRICE	SELL PRICE
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB273031	3	123	126
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB273041	2	82	84
TECH LINE INC.	007321904	7420011828535	CALCULATING MACHINE	JPNB255541	10	120	123
TECH LINE INC.	007321904	7420011828535	CALCULATING MACHINE	JPNB263161	10	120	123
TECH LINE INC.	007321904	7420011828535	CALCULATING MACHINE	JPNB258911	12	144	147
TECH LINE INC.	007321904	7420011828535	CALCULATING MACHINE	JPNB258381	5	60	61
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB273141	3	123	126
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB232331	2	82	84
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB232431	2	82	84
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB232741	3	123	126
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB232891	2	82	84
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB233701	2	82	84
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB233711	2	82	84
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB233721	2	82	84
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB233731	1	41	42
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB246021	3	123	126
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB226891	2	82	84
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB226921	2	82	84
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB226931	2	82	84
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB227161	5	205	210
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB228971	2	82	84
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB229351	2	82	84
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB206311	2	82	84
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB206411	2	82	84
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB206421	2	82	84
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB245811	3	123	126
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB245091	3	123	126
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB246061	2	82	84
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB226381	2	82	84
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB246031	2	82	84
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB229371	2	82	84
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB230171	4	164	168
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	JPNB244001	2	82	84

SUMMARIES FOR BUS SIZE: E

TOT-NSN: 489
TOT PO'S: 489
TOT QTY: 5,704
TOT COST: 354,382
TOT SELL: 359,601

BUS SIZE: 4

VENDOR	CECC	NSN	DESCRIPTION	PO NO	QTY	COST PRICE	SELL PRICE
SWINTEC CORPORATION	039263546	7430011166035	IBM WHEELWRITER 3 TYPEWR	JPNE225051	2	552	565
SWINTEC CORPORATION	039263546	7430011166035	IBM WHEELWRITER 3 TYPEWR	JPNF203411	3	828	848
SWINTEC CORPORATION	039263546	7430011166035	IBM WHEELWRITER 3 TYPEWR	JPNE203681	4	1,104	1,131
SWINTEC CORPORATION	039263546	7430011166035	IBM WHEELWRITER 3 TYPEWR	JPNE203681	1	276	282
SWINTEC CORPORATION	039263546	7430011166035	IBM WHEELWRITER 3 TYPEWR	JPNE201331	2	552	565
SWINTEC CORPORATION	039263546	7430011166035	IBM WHEELWRITER 3 TYPEWR	JPNE203661	2	552	565

SUMMARIES FOR BUS SIZE: 4

TOT-NSN: 6
TOT PO'S: 6
TOT QTY: 14
TOT COST: 3,864
TOT SELL: 3,960

BUS SIZE: 5

VENDOR	CECC	NSN	DESCRIPTION	PO NO	QTY	COST PRICE	SELL PRICE
BROTHER INTERNATIONAL CORP.	064992902	7430011166035	IBM WHEELWRITER 3 TYPEWR	JPNE215921	1	215	221
BROTHER INTERNATIONAL CORP.	064992902	7430011166035	IBM WHEELWRITER 3 TYPEWR	JPNE211311	3	647	663
BROTHER INTERNATIONAL CORP.	064992902	7430012429306	TYPEWRITER	JPNE201221	1	215	221
BROTHER INTERNATIONAL CORP.	064992902	7430012429306	TYPEWRITER	JPNE201201	1	215	221
BROTHER INTERNATIONAL CORP.	064992902	7430012429306	TYPEWRITER	JPNE201211	1	215	221
BROTHER INTERNATIONAL CORP.	064992902	7430012429306	TYPEWRITER	JPNE209161	1	215	221
BROTHER INTERNATIONAL CORP.	064992902	7430012429306	TYPEWRITER	JPNE203691	2	431	442
BROTHER INTERNATIONAL CORP.	064992902	7430012429306	TYPEWRITER	JPNF203321	2	431	442
BROTHER INTERNATIONAL CORP.	064992902	7430011166035	IBM WHEELWRITER 3 TYPEWR	JPNE201011	1	215	221
BROTHER INTERNATIONAL CORP.	064992902	7430011166035	IBM WHEELWRITER 3 TYPEWR	JPNE201011	2	431	442
BROTHER INTERNATIONAL CORP.	064992902	7430012429306	TYPEWRITER	JPNE201401	3	647	663
BROTHER INTERNATIONAL CORP.	064992902	7430012429306	TYPEWRITER	JPNE201421	3	647	663
BROTHER INTERNATIONAL CORP.	064992902	7430012429306	TYPEWRITER	JPNE201411	2	431	442
BROTHER INTERNATIONAL CORP.	064992902	7430012429306	TYPEWRITER	JPNE201391	3	647	663

VENDOR	CECC	NSN	DESCRIPTION	PO NO	QTY	COST PRICE	SELL PRICE

SUMMARIES FOR BUS SIZE: 5

TOT-NSN: 1
TOT PO'S: 14
TOT QTY: 26
TOT COST: 5,610
TOT SELL: 5,751

SUMMARIES FOR RPT OFF: J

TOT-NSN: 519
TOT PO'S: 519
TOT QTY: 11,744
TOT COST: 390,557
TOT SELL: 428,388

RPT OFF: M

BUS SIZE: D

VENDOR	CECC	NSN	DESCRIPTION	PO NO	QTY	COST PRICE	SELL PRICE
GENERAL MOTORS OF CANADA	241930544	5120011947016	COUNTER LEVER: IAW GENER	MPNEI10621	17	1,700	2,210
GENERAL MOTORS OF CANADA	241930544	5120011947016	COUNTER LEVER: IAW GENER	MPNB210401	1	164	237
GENERAL MOTORS OF CANADA	241930544	5120011947016	COUNTER LEVER: IAW GENER	MPNB209001	1	164	237
GENERAL MOTORS OF CANADA	241930544	5120011947016	COUNTER LEVER: IAW GENER	MPNBC06431	2	216	313
GENERAL MOTORS OF CANADA	241930544	5120011947016	COUNTER LEVER: IAW GENER	MPNBA27261	11	1,188	1,544
GENERAL MOTORS OF CANADA	241930544	5120011947016	COUNTER LEVER: IAW GENER	MPNBA26911	2	216	313

SUMMARIES FOR BUS SIZE: D

TOT-NSN: 6
TOT PO'S: 6
TOT QTY: 34
TOT COST: 3,648
TOT SELL: 4,856

VENDOR	CECC	NSN	DESCRIPTION	PO NO	QTY	COST PRICE	SELL PRICE

SUMMARIES FOR RPT OFF: M

TOT-NSN: 6
TOT PO'S: 6
TOT QTY: 34
TOT COST: 3,648
TOT SELL: 4,856

RPT OFF: N

BUS SIZE: D

VENDOR	CECC	NSN	DESCRIPTION	PO NO	QTY	COST PRICE	SELL PRICE
GENERAL MOTORS OF CANADA LTD	Y5000776	7%,001,765,884	HOLDEN-CHART	NPNBC80481	6	2,184	2,839

SUMMARIES FOR BUS SIZE: D

TOT-NSN: 1
TOT PO'S: 1
TOT QTY: 6
TOT COST: 2,184
TOT SELL: 2,839

SUMMARIES FOR RPT OFF: N

TOT-NSN: 1
TOT PO'S: 1
TOT QTY: 6
TOT COST: 2,184
TOT SELL: 2,839

RPT OFF: Q

BUS SIZE: E

VENDOR	CECC	NSN	DESCRIPTION	PO NO	QTY	COST PRICE	SELL PRICE
ADLER ROYAL BUSINESS MACHINES	606508745	7430012299137	TYPEWRITER	QPNE178811	1	524	537
ADLER ROYAL BUSINESS MACHINES	606508745	7430004619594	TYPEWRITER,ELECTRIC 15"	QPNE180121	1	524	537
ADLER ROYAL BUSINESS MACHINES	606508745	7430004619594	TYPEWRITER,ELECTRIC 15"	QPNE180141	1	524	537
ADLER ROYAL BUSINESS MACHINES	606508745	7430004619559	TYPEWRITER, ELECTRIC AC	QPNE178991	4	2,096	2,148
ADLER ROYAL BUSINESS MACHINES	606508745	7430004619559	TYPEWRITER, ELECTRIC AC	QPNE178981	1	524	537
TEXAS INSTRUMENTS INC.	020314365	7420011745218	CALCULATING MACHINE, TEX	QPNE181241	2	88	90
TEXAS INSTRUMENTS INC.	020314365	7420011745218	CALCULATING MACHINE, TEX	QPNB179421	3	132	135
TEXAS INSTRUMENTS INC.	020314365	7420011745218	CALCULATING MACHINE, TEX	QPNB179451	2	88	90
TEXAS INSTRUMENTS INC.	020314365	7420011745218	CALCULATING MACHINE, TEX	QPNB179441	2	88	90
TEXAS INSTRUMENTS INC.	020314365	7420011745218	CALCULATING MACHINE, TEX	QPNB179371	2	88	90
TEXAS INSTRUMENTS INC.	020314365	7420011745218	CALCULATING MACHINE, TEX	QPNB179431	3	132	135
TEXAS INSTRUMENTS INC.	020314365	7420011745218	CALCULATING MACHINE, TEX	QPNB178961	2	88	90
TEXAS INSTRUMENTS INC.	020314365	7420011745218	CALCULATING MACHINE, TEX	QPNB181521	2	88	90
TEXAS INSTRUMENTS INC.	020314365	7420011745218	CALCULATING MACHINE, TEX	QPNB181291	2	88	90
TEXAS INSTRUMENTS INC.	020314365	7420011745218	CALCULATING MACHINE, TEX	QPNB180461	2	88	90
TEXAS INSTRUMENTS INC.	020314365	7420011745218	CALCULATING MACHINE, TEX	QPNE175411	2	88	90
TEXAS INSTRUMENTS INC.	020314365	7420011745218	CALCULATING MACHINE, TEX	QPNE178741	2	88	90
TEXAS INSTRUMENTS INC.	020314365	7420011745218	CALCULATING MACHINE, TEX	QPNB180421	2	88	90
TEXAS INSTRUMENTS INC.	020314365	7420011745218	CALCULATING MACHINE, TEX	QPNB179561	2	88	90
TEXAS INSTRUMENTS INC.	020314365	7420010570155	CALCULATING, MACHINE TEX	QPNE171571	2	88	90
TEXAS INSTRUMENTS INC.	020314365	7420010570155	CALCULATING, MACHINE TEX	QPNE175551	3	132	135
TEXAS INSTRUMENTS INC.	020314365	7420010496872	CALCULATING MACHINE	QPNE176321	5	220	242
TEXAS INSTRUMENTS INC.	020314365	7420011745218	CALCULATING MACHINE, TEX	QPNB180351	2	88	90
TEXAS INSTRUMENTS INC.	020314365	7420011745218	CALCULATING MACHINE, TEX	QPNB180451	5	220	225
TEXAS INSTRUMENTS INC.	020314365	7420011745218	CALCULATING MACHINE, TEX	QPNB180441	2	88	90
TEXAS INSTRUMENTS INC.	020314365	7420011745218	CALCULATING MACHINE, TEX	QPNB180431	2	88	90
SWINTEC CORPORATION	039263546	7430012582497	TYPEWRITER	QPNF171881	6	4,152	4,255
SHARP ELECTRONICS CORPORATION	148084718	7420002956068	CALCULATING MACHINE, SHA	QPNE176601	1	223	229
SHARP ELECTRONICS CORPORATION	001818012	7420011745221	PORTABLE, DESKTOP	QPNB176061	2	53	55
CANON USA INC.	041530692	7430002817051	ELECTRIC TYPEWRITER: AC,	QPNE180301	1	550	564
CANON USA INC.	041530692	7430004619594	TYPEWRITER,ELECTRIC 15"	QPNE176611	1	550	564
CANON USA INC.	041530692	7430004619594	TYPEWRITER,ELECTRIC 15"	QPNE176641	1	550	564
CANON USA INC.	041530692	7430004619594	TYPEWRITER,ELECTRIC 15"	QPNE180081	1	550	564
BROTHER INTERNATIONAL CORP.	064992902	7430005015680	TYPEWRITER, ELECTRIC, IB	QPNE181021	12	5,580	5,719
BROTHER INTERNATIONAL CORP.	064992902	7430005015680	TYPEWRITER, ELECTRIC, IB	QPNE181161	5	2,325	2,383
BROTHER INTERNATIONAL CORP.	064992902	7430005015680	TYPEWRITER, ELECTRIC, IB	QPNE178911	1	465	476
ADLER ROYAL BUSINESS MACHINES	606508745	7430004619594	TYPEWRITER,ELECTRIC 15"	QPNE180131	1	524	537
TEXAS INSTRUMENTS INC.	020314365	7420011828532	CALCULATING MACHINE,	QPNB181061	5	60	62
TEXAS INSTRUMENTS INC.	020314365	7420011828535	CALCULATING MACHINE	QPNB176021	5	60	62
TEXAS INSTRUMENTS INC.	020314365	7420011828532	CALCULATING MACHINE,	QPNB180361	6	72	74
TEXAS INSTRUMENTS INC.	020314365	7420011828532	CALCULATING MACHINE,	QPNB179641	5	60	62
TEXAS INSTRUMENTS INC.	020314365	7420011828532	CALCULATING MACHINE,	QPNB181051	6	72	74
TEXAS INSTRUMENTS INC.	020314365	7420011828532	CALCULATING MACHINE,	QPNE175561	8	97	99

VENDOR	CECC	NSN	DESCRIPTION	PO NO	QTY	COST PRICE	SELL PRICE
TEXAS INSTRUMENTS INC.	020314365	7420011828532	CALCULATING MACHINE,	QPNB175951	5	97	99
TEXAS INSTRUMENTS INC.	020314365	7420011828532	CALCULATING MACHINE,	QPNB175501	5	60	62
TEXAS INSTRUMENTS INC.	020314365	7420011828532	CALCULATING MACHINE,	QPNB176951	5	60	62
TEXAS INSTRUMENTS INC.	020314365	7420011828532	CALCULATING MACHINE,	QPNB181071	5	60	62
TEXAS INSTRUMENTS INC.	020314365	7420011745218	CALCULATING MACHINE, TEX	QPNB178771	2	88	90
TEXAS INSTRUMENTS INC.	020314365	7420011745218	CALCULATING MACHINE, TEX	QPNB176261	6	264	270
TEXAS INSTRUMENTS INC.	020314365	7420011745218	CALCULATING MACHINE, TEX	QPNB178941	4	176	180

SUMMARIES FOR BUS SIZE: E

TOT-NSN: 50
TOT PO'S: 50
TOT QTY: 161
TOT COST: 23,194
TOT SELL: 23,790

BUS SIZE: 5

VENDOR	CECC	NSN	DESCRIPTION	PO NO	QTY	COST PRICE	SELL PRICE
BROTHER INTERNATIONAL CORP.	064992902	7430011166035	IBM WHEELWRITER 3 TYPEWR	QPNE181171	5	1,079	1,106
BROTHER INTERNATIONAL CORP.	064992902	7430011166035	IBM WHEELWRITER 3 TYPEWR	QPNE178871	10	2,158	2,212
BROTHER INTERNATIONAL CORP.	064992902	7430011166035	IBM WHEELWRITER 3 TYPEWR	QPNE181271	5	1,079	1,106
BROTHER INTERNATIONAL CORP.	064992902	7430012429206	TYPEWRITER	QPNE180101	2	431	442
BROTHER INTERNATIONAL CORP.	064992902	7430012429206	TYPEWRITER	QPNF181331	2	431	442
BROTHER INTERNATIONAL CORP.	064992902	7430012429206	TYPEWRITER	QPNE180071	1	215	221
BROTHER INTERNATIONAL CORP.	064992902	7430012429206	TYPEWRITER	QPNE180091	2	431	442
BROTHER INTERNATIONAL CORP.	064992902	7430012429206	TYPEWRITER	QPNE181131	3	647	663
BROTHER INTERNATIONAL CORP.	064992902	7430012429206	TYPEWRITER	QPNF181441	3	647	663
BROTHER INTERNATIONAL CORP.	064992902	7430011166035	IBM WHEELWRITER 3 TYPEWR	QPNE178961	5	1,079	1,106

SUMMARIES FOR BUS SIZE: 5

TOT-NSN: 10
TOT PO'S: 10
TOT QTY: 38
TOT COST: 8,200
TOT SELL: 8,405

VENDOR	CECC	NSN	DESCRIPTION	PO NO	QTY	COST PRICE	SELL PRICE

SUMMARIES FOR RPT OFF: Q

TOT-NSN: 60
TOT PO'S: 60
TOT QTY: 199
TOT COST: 31,394
TOT SELL: 32,196

RPT OFF: T

BUS SIZE: D

VENDOR	CECC	NSN	DESCRIPTION	PO NO	QTY	COST PRICE	SELL PRICE
LEAR CHEMICAL RESEARCH CORP.	244117255	8030005468637	CORROSION PREVENTIVE COM	SWYT9511	4,860	13,705	13,705
PRESCOTT & CO. LTD	246342851	8030012321303	GEAR MARKING COMPOUND. Y	TPNEC14721	8	220	319
PRESCOTT & CO. LTD	246342851	8030012321303	GEAR MARKING COMPOUND. Y	TPNBD08251	8	220	319
PRESCOTT & CO. LTD	246342851	8030012321303	GEAR MARKING COMPOUND. Y	TPNBD30511			
PRESCOTT & CO. LTD	246342851	8030012321303	GEAR MARKING COMPOUND. Y	TPNEC58571	8	220	319
LOCTITE PUERTO RICO, INC.	090506239	8040008263535	ADHESIVE, CYANOACRYLATE:	NWYV3851	550	3,399	3,399
LOCTITE PUERTO RICO, INC.	090506239	8040008263535	ADHESIVE, CYANOACRYLATE:	NWYW4561	850	5,253	5,253
LEAR CHEMICAL RESEARCH CORP.	244117255	8030005468637	CORROSION PREVENTIVE COM	NWYT9511	3,456	9,745	9,745
LEAR CHEMICAL RESEARCH CORP.	244117255	8030005468637	CORROSION PREVENTIVE COM	NWYS8971	4,068	11,471	11,471
PRESCOTT & CO. LTD	246342851	8030012321303	GEAR MARKING COMPOUND. Y	TPNEC14711	8	220	319
PRESCOTT & CO. LTD	246342851	8030012321303	GEAR MARKING COMPOUND. Y	TPNBC89481	8	220	319
PRESCOTT & CO. LTD	246342851	8030012321303	GEAR MARKING COMPOUND. Y	TPNEC10451	8	220	319
PRESCOTT & CO. LTD	246342851	8030012321303	GEAR MARKING COMPOUND. Y	TPNBD07351			
PRESCOTT & CO. LTD	246342851	8030012321303	GEAR MARKING COMPOUND. Y	TPNBC61711	8	220	319
PRESCOTT & CO. LTD	246342851	8030012321303	GEAR MARKING COMPOUND. Y	TPNBB27281	8	176	255
PRESCOTT & CO. LTD	246342851	8030012321303	GEAR MARKING COMPOUND. Y	TPNEC29571	8	220	319

SUMMARIES FOR BUS SIZE: D

TOT-NSN: 16
TOT PO'S: 16
TOT QTY: 13,856
TOT COST: 45,510
TOT SELL: 46,382

VENDOR	CECC	NSN	DESCRIPTION	PO NO	QTY	COST PRICE	SELL PRICE

SUMMARIES FOR RPT OFF: T

TOT-NSN: 16
TOT PO'S: 16
TOT QTY: 13,856
TOT COST: 45,510
TOT SELL: 46,382

RPT OFF: U

BUS SIZE: D

VENDOR	CECC	NSN	DESCRIPTION	PO NO	QTY	COST PRICE	SELL PRICE
KRUG, INC.	20154/668	711000SYSTEMS	SPECIAL NSN FOR	UPNBD81401	1	1,218	1,278
KRUG, INC.	20154/668	711000ADPFURN	SPECIAL NSN FOR ADP FURN	UPNBD65331	1	2,328	2,386
KRUG, INC.	20154/668	711000SYSTEMS	SPECIAL NSN FOR	UPNBD84601	1	479	502
KRUG, INC.	20154/668	711000SYSTEMS	SPECIAL NSN FOR	UPNBD86381	1	434	455

SUMMARIES FOR BUS SIZE: D

TOT-NSN: 4
TOT PO'S: 4
TOT QTY: 6
TOT COST: 4,459
TOT SELL: 4,623

BUS SIZE: E

VENDOR	CECC	NSN	DESCRIPTION	PO NO	QTY	COST PRICE	SELL PRICE
ARTOPEX (US) INC.	103337770	711000ADPFURN	SPECIAL NSN FOR ADP FURN	UPNBX83891	906	19,978	20,973
ARTOPEX (US) INC.	103337770	711000ADPFURN	SPECIAL NSN FOR ADP FURN	UPNBD77841	1	1,631	1,672
ARTOPEX (US) INC.	103337770	711000ADPFURN	SPECIAL NSN FOR ADP FURN	UPNBZ09181	1	85,745	88,746
ARTOPEX (US) INC.	103337770	711000ADPFURN	SPECIAL NSN FOR ADP FURN	UPNBZ18171	1	299,695	307,188
ARTOPEX (US) INC.	103337770	711000ADPFURN	SPECIAL NSN FOR ADP FURN	UPNBX83901	4,190	19,299	20,279

VENDOR	CECC	NSN	DESCRIPTION	PO NO	QTY	COST PRICE	SELL PRICE

SUMMARIES FOR BUS SIZE: E

TOT-NSN: 5
TOT PO'S: 5
TOT QTY: 5,099
TOT COST: 426,351
TOT SELL: 438,860

BUS SIZE: 4

VENDOR	CECC	NSN	DESCRIPTION	PO NO	QTY	COST PRICE	SELL PRICE
ARTOPEX (US) INC.	103337770	711000ADPFURN	SPECIAL NSN FOR ADP FURN	UPNBX83941	4,352	402,936	413,004

SUMMARIES FOR BUS SIZE: 4

TOT-NSN: 1
TOT PO'S: 1
TOT QTY: 4,352
TOT COST: 402,936
TOT SELL: 413,004

SUMMARIES FOR RPT OFF: U

TOT-NSN: 10
TOT PO'S: 10
TOT QTY: 9,457
TOT COST: 833,746
TOT SELL: 856,488

RPT OFF: V

BUS SIZE: 5

VENDOR	CECC	NSN	DESCRIPTION	PO NO	QTY	COST PRICE	SELL PRICE
FREUDENBERG BUILDING SYS, INC.	187963988	7220010284330	TREAD,STAIR,RUBBER	VPNB294571	10	330	338

SUMMARIES FOR BUS SIZE: 5

TOT-NSN: 1
TOT PO'S: 1
TOT QTY: 10
TOT COST: 330
TOT SELL: 338

SUMMARIES FOR RPT OFF: V

TOT-NSN: 1
TOT PO'S: 1
TOT QTY: 10
TOT COST: 330
TOT SELL: 338

RPT OFF: W

BUS SIZE: E

VENDOR	CECC	NSN	DESCRIPTION	PO NO	QTY	COST PRICE	SELL PRICE
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	WPSA206561	600	24,600	24,600
TECH LINE INC.	007321904	7420011745218	CALCULATING MACHINE, TEX	WPSA204841	800	32,800	32,800
TEXAS INSTRUMENTS INC.	020314365	7420011828534	CALCULATING MACHINES CAS	WPSA109301	1,200	11,100	11,100
TECH LINE INC.	007321904	7420011828535	CALCULATING MACHINE	WPSA205941	1,500	18,000	18,000

VENDOR	CECC	NSN	DESCRIPTION	PO NO	QTY	COST PRICE	SELL PRICE

SUMMARIES FOR BUS SIZE: E

TOT-NSN: 4
TOT PO'S: 4
TOT QTY: 4,100
TOT COST: 86,500
TOT SELL: 86,500

BUS SIZE: 5

VENDOR	CECC	NSN	DESCRIPTION	PO NO	QTY	COST PRICE	SELL PRICE
KONICA BUSINESS MACHINES	096366760	6850012402347	DEVELOPER,INDIRECT	WPSA200591	192	6,282	6,282

SUMMARIES FOR BUS SIZE: 5

TOT-NSN: 1
TOT PO'S: 1
TOT QTY: 192
TOT COST: 6,282
TOT SELL: 6,282

SUMMARIES FOR RPT OFF: W

TOT-NSN: 5
TOT PO'S: 5
TOT QTY: 4,292
TOT COST: 92,782
TOT SELL: 92,782

RPT OFF: Z

BUS SIZE: E

VENDOR	CECC	NSN	DESCRIPTION	PO NO	QTY	COST PRICE	SELL PRICE
KONICA BUSINESS MACHINES	096366760	0061000&R0055	COPIER, COMPACT	FWRG9531	2		
KONICA BUSINESS MACHINES	096366760	0061000&R0055	COPIER, COMPACT	FWRH1541	2	3,516	3,516
KONICA BUSINESS MACHINES	096366760	0061000&R0055	COPIER, COMPACT	FWRG2951	1	1,758	1,758
KONICA BUSINESS MACHINES	096366760	0061000&R0055	COPIER, COMPACT	FWRG6751	1	1,758	1,758

SUMMARIES FOR BUS SIZE: E

TOT-NSN: 4
TOT PO'S: 4
TOT QTY: 6
TOT COST: 7,032
TOT SELL: 7,032

SUMMARIES FOR RPT OFF: Z

TOT-NSN: 4
TOT PO'S: 4
TOT QTY: 6
TOT COST: 7,032
TOT SELL: 7,032

SUMMARIES FOR FINAL

TOT-NSN: 632
TOT PO'S: 632
TOT QTY: 421,826
TOT COST: 1,645,826
TOT SELL: 1,703,481

SUMMARY OF RECORDS INPUT
AND SELECTED FROM INPUT

INPUT SECTION

EF-BALDESC

RECORDS ACCESSED:	172436
NULL RECORDS ADDED:	0
TOTAL RECORDS INPUT:	172436
RECORDS SELECTED:	60

EF-BAL419VAF

RECORDS ACCESSED:	632
NULL RECORDS ADDED:	172376
TOTAL RECORDS INPUT:	173008
RECORDS SELECTED:	632

REPORT SECTION 1

LOGICAL RECORDS

INPUT:	632
SELECTED:	632

** NUMBER OF EXCEPTIONS: 0

Mr. VISCLOSKY. How did GSA make the determination to foreign source, whether it be copiers or furniture?

Mr. DANIERO. We are governed by the Trade Agreements Act. That says that we have to treat a foreign source as signatory through the Trade Agreements Act as if he was domestic. So we can't——

Mr. VISCLOSKY. And there is no price differential. Thank you very much. The Chair has some additional questions for the record. record.

[Additional questions submitted for the record by the Committee and the answers thereto follow:]

SAVINGS

Question. The principle upon which the Federal Supply Service is based in that by purchasing general supply type items centrally in larger quantities for the whole government will be cheaper than each agency purchasing those items individually in a decentralized manner. Are you now achieving these savings? For example, how much would you charge an agency for a copier machine and how does that compare with what the agency would pay if it were purchased on the open market?

Answer. FSS is achieving savings for the Government, not only by purchasing in larger quantities, but by contracting centrally and providing that contract source for all agencies to use. The example of a copier is one where the agencies have a variety of choices. Savings will vary, with an average of 20%, since that item is available through the Federal Supply Schedule program, which is an appropriated function.

Question. What about less expensive items such as copier paper?

Answer. Copier paper is an item that is procured in large quantities. FSS provides this item and recovers its costs at competitive prices. A nationwide, delivered selling price normally remains in effect for 6 months at a time, based on the procurement cycle, and is currently $20.65 per box. New contracts are expected to go into effect soon with a reduction in the selling price. On February 19, 1993, the open market, case prices for quantity of 144 cases were $19.50, $21.90, $24.98 (Staples) and $52.50, for delivery around the New York City area. FSS achieves the administrative savings for the Government mentioned above. Additionally, even for a very price competitive item like copier paper in a major market like New York, it is not that competitive Nationwide and seldom for a single case. The FSS price is the same for any quantity and destination.

Question. Generally, how much does the government save by purchasing through FSS rather than by allowing each agency to purchase on their own?

Answer. Savings over open market, decentralized procurement varies by item and is actually composed of two values. First is the cost of the product, including any FSS cost recovery. Second is the administrative cost to the agency to go out and find a source and make a procurement. Independent research by Coopers and Lybrand determined it is significantly cheaper for an agency to place a requisition with FSS than to issue a purchase order.

ADMINISTRATIVE SAVINGS

[In millions]

Program	Sales [1]	Savings [2]			
		Product	Agency ordering	Total	Percent
Schedules	$2,519	$606	$28	$634	20
Stock	1,101	190	64	254	18
SOP	381	83	6	89	19
Automotive	647	106	N.A.	106	14
Total	4,648	985	98	1,083	19

[1] Includes FSS processing costs.
[2] Excludes agency inventory savings (DOD documented $650,000 saved at just two locations).

Centralized procurement offers other advantages which are difficult to quantify, such as:

Volume orders allows increased efficiency through automation: Use of Electronic Data Interchange in 25% of orders, Rapid invoice processing with EFT option.

Agencies can concentrate on their own mission.

Single government face to industry: standard processes, forms, etc.

Agencies achieve socioeconomic goals for blind, handicapped, and prison produced items since FSS markets and distributes them.

Leverage to introduce new items: Environmentally friendly items (over $100M/year); Recycled paper products (over $200M/year); Alternate fuel vehicles; and Air bags made standard (at no extra cost).

Question. How do you determine what agencies are charged for a particular item? Please provide an example of all the charged costs for a copier machine purchased from the Federal Supply Service by any Federal agency.

Answer. Items that FSS provides by charging General Supply Fund customers have direct and overhead costs added to the item cost, to determine a selling price. These costs are applied through a markup percentage that can vary by Federal Supply Class, based on the total cost incurred to supply the volume purchased.

Copier machines are under the Federal Supply Schedule (schedule) program. FSS receives an appropriation to provide the schedule program and customers make direct purchases from schedules. There are no charged costs under schedules.

Activity Costs

Question. The 1993 appropriated amount of the Federal Supply Service is $56.1. What part of this appropriation is associated with Transportation Management, regulatory activities, policy activities, Transportation Audits and Schedules Contracting? Is a portion of these costs also funded through "Overhead" charges to General Supply Fund customers? If so, what amount is not covered by the charges?

Answer.

Activity costs

	Thousands
Schedules	$19,698
Transportation	18,410
Property management	18,036

Transportation audits activities funded by direct appropriation are included under Transportation above. (Expenses of contract administration and contractor payments for transportation audit activities are funded from a permanent, indefinite account funded from receipts.) All operating expenses associated with the above activities are funded from the OE, FSS direct appropriation with no portion funded by the GSF.

Cost Comparisons

Question. Please provide for the record cost comparisons for a copier machine, a typewriter, a gross of copier paper and a gross of ballpoint pens based on the current FSS method of charging General Supply Fund customers. Include the cost should all FSS costs be passed on to the customer and the cost of these items if purchased on the open market.

Answer.

The current method of charging General Supply Fund customers already includes all FSS costs.

Copier Machines and Typewriters are under the Federal Supply Schedule program. FSS receives an appropriation to provide the schedule program and customers make direct purchases from schedules. They are not General Supply Fund customers.

ITEM	MAKE/MODEL or NSN	FSS COST	OPEN MARKET COST
Copier Machine	Mita DC-4585	$ 5,277.25	$ 9,895.00
	Canon NP-9800	29,304.00	37,100.00
	Sharp SD-2075	19,625.00	36,000.00

As a matter of information, Copier Machines are on a FSS online data base system. It allows customer to specify their copier requirements, e.g., copies per minute, duplexing, sorter, etc. The system responds in ascending, cost per copy sequence, with the available machines. A printed extract from this Automated Product Listing Service (APLS) is submitted for the record. It illustrates how APLS can assist customers in picking the lowest priced machine to fit their needs.

Typewriter	Brother EM-605	$ 254.00	$ 549.00
	Brother EM-605SC	286.00	608.95

Copier Paper and Ballpoint Pens are purchased by General Supply Fund Customers.

Gross of Copier Paper	8 1/2x11 recycled 7530-01-335-2623	$3,710.88	$ 5,040.00
	8 1/2x11 virgin 7530-00-181-7174	2,973.60	2,808.00 to 3,597.12
Gross of Ball-point Pens	7520-00-935-7136	34.42	36.84

As the Government's central procurement agency, FSS is the source for Federal agencies to acquire products from National Industries for the Blind (NIB) and National Industries for the Severely Handicapped (NISH). Ballpoint pens are one of the available NIB items. Since the items FSS supplies is not purchased on the open market, that cost information is for a similar item.

The FSS unit of the issue for copier paper is case or carton containing 10 reams of paper. The selling price per case is $20,65 for virgin paper and $25.77 for recycled paper. The gross price shown above is for 144 cases. The open market costs reflect case prices that ranged from $19.50 to $24.98 on February 19, 1993.

The FSS unit of issue for ballpoint pens is a dozen. The selling price per dozen is 2.86. The gross price shown above is for 144 pens.

PRINTED EXTRACT FROM THE AUTOMATED PRODUCT LISTING SERVICE

02/18/93 ===== FSS 36 IV PURCHASE PLANS ===== 1

VOLUME	CPC	VENDOR	MODEL	CPM	PURCHASE	SMA CHG
30000	.0119	RICOH	FT-5433	33	3799.00	260.50
30000	.0124	KONICA	4090/ZONE 1 MAINT.	40	3049.00	280.08
30000	.0126	KONICA	3035 HIGH VOLUME	35	3885.00	248.63
30000	.0127	SHARP	SF-8570	32	3746.00	258.05
30000	.0127	KONICA	4090/ZONE 1 MAINT.	40	3049.00	286.83
30000	.0128	SHARP	SF-8570	32	3746.00	258.05
30000	.0129	SHARP	SF-8570	32	3746.00	259.63
30000	.0130	KONICA	3035 LOW VOLUME	35	3885.00	264.38
30000	.0130	SHARP	SF-8570	32	3746.00	259.63
30000	.0130	KONICA	4045 HIGH VOLUME	45	5775.00	242.63
30000	.0131	KONICA	3035 HIGH VOLUME	35	3885.00	255.38
30000	.0132	KONICA	4090/ZONE 2 MAINT.	40	3049.00	313.08
30000	.0132	RICOH	FT-5433	33	3799.00	267.50
30000	.0135	KONICA	4045 LOW VOLUME	45	5775.00	262.13
30000	.0135	KONICA	3035 LOW VOLUME	35	3885.00	271.13
30000	.0135	KONICA	4045 HIGH VOLUME	45	5775.00	249.38
30000	.0136	KONICA	4090/ZONE 2 MAINT.	40	3049.00	319.83
30000	.0138	ROYAL	2032	32	3873.00	295.45
30000	.0138	MONROE	RL935 HIGH VOLU	35	2971.00	339.83
30000	.0139	CANON	NP-3030	30	3504.00	301.64
30000	.0140	MONROE	RL935	35	2971.00	345.67
30000	.0140	KONICA	4045 LOW VOLUME	45	5775.00	268.88
30000	.0141	SHARP	SF-8870	40	4341.00	300.01
30000	.0142	SHARP	SF-8870	40	4341.00	300.01
30000	.0142	MONROE	RL945 HIGH VOLU	45	3643.00	339.83
30000	.0142	CANON	NP-3030	30	3504.00	301.64
30000	.0142	CANON	NP-3030	30	3504.00	301.64
30000	.0143	MONROE	RL945	45	3643.00	345.67
30000	.0143	SHARP	SF-8870	40	4341.00	301.59
30000	.0144	SHARP	SF-8870	40	4341.00	301.59
30000	.0145	MONROE	RL935 HIGH VOLU	35	2971.00	352.83
30000	.0145	MONROE	RL935DX HIGH VOLU	35	4536.00	350.75
30000	.0145	CANON	NP-3030	30	3504.00	301.64
30000	.0146	ROYAL	2045	45	4757.00	291.70
30000	.0147	MONROE	RL935	35	2971.00	358.67
30000	.0149	MONROE	RL945 HIGH VOLU	45	3643.00	352.83
30000	.0151	MONROE	RL945	45	3643.00	358.67
30000	.0152	MONROE	RL935DX HIGH VOLU	35	4536.00	363.75
30000	.0155	KONICA	8028 ZONE 1 MAINT.	28	4970.00	316.57
30000	.0155	KONICA	8028 ZONE 1 MAINT.	28	4970.00	309.57
30000	.0158	GESTETNER	2335Z W/RADF-2	35	5230.00	373.51
30000	.0163	GESTETNER	2335Z W/RADF-2	35	5230.00	373.51
30000	.0169	KONICA	8028 ZONE 2 MAINT.	28	4970.00	363.70
30000	.0170	MONROE	RL935DX	35	4536.00	444.08
30000	.0170	KONICA	8028 ZONE 2 MAINT.	28	4970.00	370.70
30000	.0177	MONROE	RL935DX	35	4536.00	457.08
30000	.0188	XEROX	1050	55	8955.00	432.15

PRINTED EXTRACT FROM THE AUTOMATED PRODUCT LISTING SERVICE

02/18/93

VOLUME	CPC	VENDOR	MODEL	CPM	PURCHASE	SMA CHG
70000	.0087	MONROE	RL945 HIGH VOLU	45	3643.00	465.83
70000	.0090	MONROE	RL945 HIGH VOLU	45	3643.00	478.83
70000	.0104	KODAK	EKTAPRINT 150F COP/DUPL	70	9940.00	627.00
70000	.0106	KONICA	4045 HIGH VOLUME	45	5775.00	530.63
70000	.0108	KONICA	4045 HIGH VOLUME	45	5775.00	537.38
70000	.0112	KONICA	4045 LOW VOLUME	45	5775.00	586.13
70000	.0114	KONICA	4045 LOW VOLUME	45	5775.00	592.88
70000	.0120	KODAK	EKTAPRINT 150P COP/DUPL	70	9756.00	729.00
70000	.0120	ROYAL	2045	45	4757.00	651.70
70000	.0121	KODAK	EKTAPRINT 150AF COP/DUP	70	12284.00	729.00
70000	.0121	KODAK	EKTAPRINT 150PS COP/DUP	70	12100.00	729.00
70000	.0122	MONROE	RL945	45	3643.00	777.67
70000	.0126	MONROE	RL945	45	3643.00	790.67
70000	.0128	KODAK	EKTAPRINT 220FS COP/DUP	70	15120.00	727.00
70000	.0128	KODAK	EKTAPRINT 220S COP/DUPL	70	15120.00	727.00
70000	.0128	KODAK	EKTAPRINT 220F COP/DUPL	70	12180.00	727.00
70000	.0137	KODAK	EKTAPRINT 220FS COP/DUP	70	15000.00	727.00
70000	.0137	KODAK	EKTAPRINT 220S COP/DUP	70	15000.00	727.00
70000	.0137	KODAK	EKTAPRINT 220F COP/DUP	70	12000.00	727.00
70000	.0144	XEROX	1050	55	8955.00	932.15
70000	.0145	XEROX	1050	55	8955.00	932.15
70000	.0149	XEROX	1050	55	8955.00	951.55
70000	.0151	XEROX	1050	55	8955.00	951.55
70000	.0167	XEROX	1075	70	25000.00	796.00
70000	.0171	XEROX	1075	70	25000.00	844.00
70000	.0185	XEROX	1075	70	25000.00	890.10
70000	.0189	XEROX	1075	70	25000.00	938.10
70000	.0197	XEROX	1075 HIGH VOLUME	70	25000.00	1063.50
70000	.0201	XEROX	1075 HIGH VOLUME	70	25000.00	1104.00
70000	.0214	XEROX	1075 HIGH VOLUME	70	25000.00	1143.50
70000	.0217	XEROX	1075 HIGH VOLUME	70	25000.00	1184.00
70000	.0242	XEROX	1090	92	53505.00	859.65
70000	.0278	XEROX	1090 HIGH VOLUME	82	53505.00	1175.00

DEPOT-BASED DISTRIBUTION

Question. One of GSA's major activities is to supply Federal agencies with a variety of commercial-type products, most of which are funneled through GSA's depot-based distribution system. A recent GAO report states that millions could be saved if orders were shipped directly to the customers, bypassing GSA's depots. What is your response to GAO's statement?

Answer. The Federal Supply Service provides personal property and nonpersonal services to its customers using a range of programs, one of which is the depot system. At present, approximately 25% of the dollar volume of supplies and services contracted for by FSS are attributable to this distribution network. The larger portion is delivered directly by FSS contractors through one of three vehicles, our stock direct delivery, special order or Federal Supply Schedules programs.

When deciding how a product or service can best be provided to our customers, we evaluate the economies and feasibility of each of these programs. Clearly, we recognize the merits of direct delivery, as is evident from the volume of our business which utilizes that mode of servicing Federal requirements today.

Material is supplied through our depot system when we have determined that the greatest overall savings to the Government can be achieved by FSS buying in large quantities and distributing these products to our customers around the world. In addition to the volume discounts which we achieve and pass along to our customers, we consider timeliness of delivery, administrative cost avoidance for our customers and reduction in overall inventory investment attributable to FSS stockage versus potential stockage by a multiplicity of agencies.

For the items in our stock program, our experience has been that vendors perceive the advantage of shipping large quantities to one or more of our four depots rather than content with thousands of small orders to addresses around the country. Experience has also reinforced that timely response to our customer's expectations concerning delivery is secured by shipping these commodities through our distribution network.

The GAO report has prompted us to reexamine these premises. We have developed a plan to evaluate the possibility that we can direct deliver more of the items currently stocked by FSS. The GAO conclusion that a large percentage of these items could be delivered directly by FSS vendors without adversely affecting price or delivery responsiveness was based upon their interviews with 300 vendors. Our evaluation will be conducted within the market place, that is the say, we will be working within the framework of actual Government contracting. New provisions will be introduced and contracts modified where possible to conduct this evaluation. The effect on the cost or savings to the Government will be the yardstick by which we measure success and determine if the number of items in our inventory can be reduced. If savings can be achieved and greater direct delivery proves a reliable mechanism for the supply of some or all of these items, FSS will move swiftly to further reduce the distribution operations which it now runs.

Over the last few decades, FSS has streamlined its distribution system, reducing the number of depots from 26 to 4. At the same time, our customers have begun to seek means of reducing their inventory by relying upon us. This trend is budget driven. The future direction and structure of the Federal Government's supply system is being redefined in this environment.

The GAO report encouraged us to establish networks with our customers to determine the most cost-effective supply system. We are establishing an interagency committee of senior logisticians to seriously examine the nature of the Government's supply system today and to set a course for the future. Increased opportunities for direct delivery, for reducing Government holdings of inventory, in individual agencies and our own, will be central themes in the overall commitment to reduce the cost of Government operations through improved supply system management.

Question. Is GSA increasing direct deliveries of supplies from vendors to customer agencies? If so, what productivity savings have you realized?

Answer. As stated in response to the previous question, we have developed a plan to evaluate the opportunities for expanding the scope of direct delivery. The results of this evaluation will allow us to determine the effect upon productivity and cost/savings to the Government.

AUTOMATION OF DEPOT OPERATIONS

Question. In 1986 GSA began a program to automate and modernize its 5 supply depots to allow for more efficient operations. I understand that GSA encountered

problems with its first modernization project in Palmetto, GA. What went wrong and what level of funding is involved in this project?

Answer. The Duluth, GA, facility was a leased facility whose 20 year term was due to expire April 1989. GSA public Buildings Service solicited proposals for a new 20 year lease and it was determined that it would be more economical to build/lease at a new location than renew at the old site. FSS contracted with an independent Material Handling Consulting firm to advise us on the building shape and configuration and on internal material handling systems and software.

While GAO and GSA's Inspector General's Office have issued two reports on what went wrong at Palmetto, we believe two major decisions or events caused the majority of our problems.

The first event was the decision not to extend the Duluth facility lease and to transition into the new facility in too short of a time period. In April 1989, the Palmetto facility, in fact, was not completed and the Material Handling Equipment was not constructed, yet the Duluth facility was completely closed and operations expected to commence in Palmetto.

The second event was the decision to buy "off the shelf" software and modify the software to Government requirements using independent contractors, and to expect the task to be completed in approximately one year.

Palmetto became a full functioning facility during the second quarter of fiscal year 1990.

Question. What have you done to ensure that the problems you encountered at Palmetto will not be repeated at other depots?

Answer. The Burlington facility was built and leased allowing for a transition period of ten months from the Government owned Belle Mead facility. GAO compliments GSA for the great job it did in Burlington.

Question. Do you have the critically needed software to automate the new depots to make them cost effective? If not, when do you expect to have the software developed and on-line?

Answer. The depots are currently operating under the FSS–19 computer system. Also, manual and semi-automated procedures have been implemented to utilize some of the features provided by the automated equipment installed at Palmetto, GA, and Burlington, NJ. Additional software is under development to attain the full benefits that the new equipment can provide. The new software is being developed in phases. Receiving and Storage operations will be automated in 1993 while Picking and Shipping operations will be automated in 1994.

Question. Do you anticipate that you will be able to operate your 5 automated depots in the manner originally planned?

Answer. GSA is consolidating its depot operations into four depots. Two of these depots have upgraded material handling equipment while the other depots will use current material handling equipment. GSA's automation is improved information processing using bar code technology to reduce paperwork, and improved planning, organization, and control of labor and workload. The software under development will be able to support both the new and older depots. It is anticipated that GSA will be able to operate the depots in the manner originally planned.

Question. What are your estimated productivity savings for each of the automated depots and when do you anticipate realizing these savings?

Answer. We cannot attribute productivity gains to only one initiative because much has taken place since fiscal year 1990. We have also consolidated our wholesale and retail bin operations, moved into two new facilities, initiated a gain sharing test in one facility and changed the way we process priority orders.

In fiscal year 1990, FSS shipped 9,585,171 requisitions using 2,828,635 manhours for a rate of 3.39 lines shipped per paid mànhour. In fiscal year 1992, FSS shipped 10,251,788 requisitions using 2,669,577 manhours for a rate of 3.84 lines shipped per paid manhour. Productivity has increased 13.3 percent during this time period.

In fiscal year 1992 our overall WDC–CSC transportation cost was $53,914,008, which was 4.6% of issues at selling price and $5.25 per line shipped. These figures were a tremendous improvement over fiscal year 1991 when our overall transportation cost was $59,223,682, 5.2% of issues, and $6.05 per line.

We believe the reason for this improvement was the expansion of Guaranteed Traffic Arrangement programs, especially in Region 4; the maximization of SCAPOS, especially in Region 7; and the major change to the priority system effective May 1, 1992, which increased consolidated shipments.

We do not know how much of the $5,309,674 savings was attributed to which major initiative.

In addition, a major documented savings benefits our customers. The more consolidated shipments GSA makes mean the fewer number of receipts which have to

be processed by our customers. Customers can plan resources better and process less paperwork.

POOR QUALITY ITEMS AND VENDORS

Question. What has caused GSA to continue the practice of awarding contracts to poor performers, and do you have access to the data necessary to identify these vendors?

Answer. GSA has instituted a program which has already resulted in the process and procedures to discontinue awarding contracts to vendors judged to be incapable of performing, taking into account current capability, as well as past performance records. GSA has access to the data necessary to identify poor performers.

Question. What is GSA doing to correct the problem?

INITIATION OF CORRECTIVE ACTIONS

1. Listing of vendors with documented performance problems. The first Contractor Alert List (CAL), which identifies vendors that have failed to meet their contractual obligations, was issued on September 24, 1992. CAL updates will be issued quarterly. Additionally, on November 5, 1992, FSS Acquisition Letter FC-92-4 was issued, as required by GSAR, to formally implement these procedures.

2. Implementation of a vendor rating system. GSA's Federal Supply Service (FSS) met with several Department of Defense components to examine their vendor rating systems. FSS determined that a vendor rating system is not appropriate for FSS procurements. As an alternative approach, we are developing a model source selection plan for selected acquisitions where vendor past performance has been a problem. Under the model source selection plan, which should be completed in September 1993, past performance will be used as an evaluation factor.

3. Establishing a new procurement data system. The design of an improved Supplier Summary (YQL) was completed in mid-January 1993. The redesigned Supplier Summary consolidates all relevant, existing supplier information regarding quality and delivery performance on a single form. Information on complaints, Quality Deficiency Notices, Notice of Inspection (GSA Forms 308), and laboratory rejections, as well as delivery performance to original due dates, has been included in an easy-to-use format. This revised summary also captures information on hours expended by the Quality Assurance Specialist (QAS) on a given contract. Also, by November 1, 1993, the Supplier Summary will be further refined to capture information on hours expended by the Administrative Contracting Officer (ACO) on a given contract. Once completed, this information, when combined with hourly cost figures, will provide a cost/$000 measure, which will provide an additional management tool to monitor the impact of poor vendor performance.

As previously reported in our response to the draft report, ACO's were instructed, by memorandum of September 21, 1992, to carefully review supplier summary information at the time of contract closeout to ensure the accuracy of the data.

4. Elevating the approval level for all PCO's nonconcurrences on ACO's recommendations for termination. In a joint memorandum from the Office of Commodity Management and the Office of Quality and Contract Administration, instructions were issued to contracting activities. These instructions require approval on all PCO nonconcurrences on ACO recommendations for termination of contracts to the procuring activity's Assistant Regional Administrator or the Assistant Commissioner for Commodity Management. Since the time of our response to the draft report, we have decided to establish dollar thresholds as the GAO report notes was originally planned. An Acquisition Letter is being finalized to formally include these requirements in the FSS regulatory system.

5. Emphasize contract quality as a priority over established performance measurements. As indicated in our response to the draft report, all FSS program offices were advised on October 21, 1992, that while contract coverage, fill rate, and other indicators are important, the award of quality contracts is our primary consideration.

6. Training classes. Six training classes on Contracting with Responsible Contractors, were conducted in 1992 by the Office of Acquisition Policy. One training class was conducted in 1993, and four more are scheduled. Additional regional training classes will be scheduled pending the availability of travel funds to the Office of Acquisition Policy and the remainder of Central Office training classes pending the availability of the instructor.

7. Including award quality in PCO's performance evaluations. On November 5, 1992, the Office of Commodity Management issued a memorandum to all commodity center directors requesting that the performance plans of all contracting personnel be reviewed to ascertain if they address contract quality. Any performance plans found lacking such criteria were to be modified immediately to include this element. Also, the memorandum directed that the performance

plan balance contract quality with traditional performance indicators, such as contract coverage.

8. Initiating commodity center management reviews. Special reviews that focused on contracting with quality contractors were completed with the exception of the Office Supplies and Paper Products Commodity Center in New York. This review should be completed in March 1993. The reviews conducted to date were beneficial and resulted in corrective actions and recommendations for improvement.

9. Requiring a Plant Facilities Report (PFR) on all poor performers. The initiation of the CAL, discussed in item 1 above, requires a PFR on all vendors identified as experiencing performance problems. Instructions were issued to ACO's to include vendor performance history on all PFR's.

   Also, work is underway to revise the PFR (Form 353) to formally address vendor past performance, make general improvements to the form, and provide enhanced instructions to PCO's, ACO's, and QAS' in completing and utilizing the report. We expect the revised form to be finalized in September 1993.

10. Total Quality Management (TQM) projects on the Quality Approved Manufacturer Agreement (QAMA) program. A Quality Improvement Team, with representatives from all five contract management zones, completed their study on the effectiveness and efficiency of the QAMA program.

    As a result of their study, national policy guidance was issued on September 22, 1992, regarding Terminations for Quality, which will allow termination for recurring deficiencies without the requirement of an additional Cure Notice. On February 28, 1992, contract management zones were instructed to continue the "Inspection of Tools which Require Inspection at Destination" program. This program continues efforts to prevent nonconforming material from entering the supply system by requiring QAS inspection and laboratory testing of materials received in the depots.

    The team also determined that lengthy QAMA lot-by-lot timeframes are not cost effective. Therefore, specific application techniques and guidelines are being developed. Once developed,

zones will be directed to carefully review all QAMA lot-by-lot contracts, with the goal of either curing the quality problems or terminating the contract.

Other actions underway as a result of the team's study are as follows. Chapter 15 of the Quality Assurance handbook (FSS P 2901.5) is being revised to eliminate roadblocks to effective implementation of QAMA by regional Contract Management Divisions. Also, to continue a team approach between the Office of Commodity Management and the Office of Quality and Contract Administration, annual working sessions are planned to resolve communication problems and differing goals.

Additionally, as discussed in item 9 above, the Plant Facilities Report is currently undergoing revision.

11. Improving guidance to Procuring Contracting Officers (PCO's) on poor performing vendors. Acquisition Letter FC-92-4, Contractor Alert List, discussed in item 1, was issued on November 5, 1992, which addresses evaluation of contractors. Another Acquisition Letter is presently being finalized, which should be issued in March 1993, that will provide additional guidance and procedures on Certificate of Competency appeals and procedures for review and concurrence on terminations.

In addition to these current documents, the Procurement Handbook, chapter 19 on Certificate of Competency and chapter 9 on Contractor Qualifications, both of which address evaluation of contractors, are being revised.

EXCESS INVENTORY

Question. In last year's hearing you stated that in February of 1992, GSA had $26 million in excess inventory. What is the excess inventory level today?

Answer. The excess inventory level in February 1993 is $20.4 million, a reduction of $5.6 million in the last year. In general, excess inventory is a by-product of any supply system. Regarding the Federal Supply Service, factors leading toward excess are: demand fluctuations; addition of new items and corresponding termination of old ones; forced production run procurements wherein the actual requirement is far beneath minimum production requirements of industry for a particular product; and the fact that economic retention levels tend to be somewhat higher for the Government than private industry when overall costs to the taxpayer are considered.

Question. Also in last year's hearing, you stated that a January 1992 plan would bring inventory back to planned levels by June. Did you accomplish that goal?

Answer. Yes. In fact, inventory met planned levels in May 1992. Total inventory level in May 1992 was $293.2 million against the plan ceiling of $297.7 million. Inventory levels remained within the established ceilings during the balance of fiscal year 1992 and fiscal year 1993 to date.

Question. What percentage of your inventory does the excess represent?

Answer. The $20.4 million in excess inventory is about 8 percent of total inventory of $246.9 million.

Question. What are the major items which make up this excess?

Answer. The three items that account for $12.1 million, over one half, of FSS's excess are Sandbags at $5.4 million, TacFire Paper at $3.3 million, and VA Bed Blankets at $3.4 million.

The first two items are residual stock resulting from overstated requirements by DOD in support of Desert Shield/Storm and the last item was ordered to VA specifications. Subcontractors fraudulently certified performance characteristics of the items, thereby rendering them unacceptable to VA. VA requirements have since changed. VA committed to purchasing September 1992. To date virtually no VA orders have been received.

OFFSHORE PROCUREMENT

Question. Last year you reported that in 1991, you spent approximately $82 million on offshore procurement of items. The largest portion of the funds was spent to purchase copiers. Would you estimate that more or less was spent on offshore procurement in 1992?

Answer. The fiscal year 1992 total for offshore procurement items is $123.4 million. The largest portion continues to be copiers as shown on the summary submitted for the record of the top 10 items with details on the countries of origin.

Question. The 1991 data show that $1.6 million was spent to purchase wheel and track vehicles. What kinds were purchased and why was it necessary to purchase them from foreign sources?

Answer. The vehicles purchased from Multiple Award Schedule FSC 23 Part I fall into three categories; first, all terrain cycles, second, motorized trail bikes, and third, three and four wheel utility domestic and foreign production points. Sales from domestic sources were $5.5 million for this same period. Contractors offering these vehicles with a foreign production point were awarded the contracts because they met the basic criteria for evaluation under the multiple award schedule program, (commerciality), they all offered foreign products manufactured in designated countries as established by the Trade Agreements Act which applies to this schedule program, and they all were determined to have offered fair and reasonable pricing, equivalent to our better than their most favored commercial customer pricing.

Under the concept of the multiple award schedule program, contracts are awarded to numerous suppliers for comparable items at the same or different prices; however, the items themselves may differ in varying degrees in quality, features, options, etc. Individual user Government agencies are thus afforded the opportunity to fill their requirement with the lowest cost item which specifically meets their requirements. The burden of justifying a schedule purchase lies with the user agency in lieu of GSA.

Question. How does GSA determine the need to purchase an item from a foreign source?

Answer. The marketplace and legislation determine when FSS contracts for foreign source items. FSS does not specifically determine that any items must come from a foreign source. Requirements used by FSS in procurements are performance based to meet particular end-use needs of the Government.

There are numerous statutes governing the procurement of items from foreign sources. The two major statutes are the Buy American Act (41 U.S.C. 10) and the Trade Agreements Act (19 U.S.C. 2501–2582).

Under the Buy American Act, domestic end products are given preference in the evaluation of offers. This preference is accomplished by adding a 6% or 12% price differential to an offer for a foreign product. Six percent is added if the firm offering the domestic end product is a large business concern, and 12% is added if the domestic offeror is a small business or a labor surplus concern.

Under the Trade Agreements Act, the Buy American Act is waived for acquisitions of products of certain countries when the value of the acquisition exceeds the dollar threshold established by the U.S. Trade Representative. The current dollar threshold is $176,000. The Trade Agreements Act implements for the United States the International Agreement on Government Procurement. This agreement provides that all signatories to the agreement can compete on an equal basis.

Because FSS provides central procurement services for the rest of Government, most acquisitions are valued greater than $176,000 and fall under the Trade Agreements Act. While the majority of contracts are with domestic sources, awards may be made for items from foreign sources.

Some of these contracts are used by FSS to place delivery orders for wholesale replenishment of stock and for direct delivery to meet individual agency requirements. Remaining contracts are under the Federal Supply Schedule program. Here, agencies select items to meet their requirements and place delivery orders directly with contractors. Their choices are based on their performance requirements and selected items may be from domestic or foreign sources. For most commodities, the majority of schedule contracts will be from domestic sources, but some commodities are supplied by mostly foreign sources.

TOP TEN ITEMS FROM FOREIGN SOURCES, FY 1992

	ITEM	$ MILLIONS
1.	Copiers/Laser Printers	74.1
2.	Film/Photo Supplies	10.8
3.	ADP Furniture	9.6
4.	Typewriters	8.4
5.	Ergonomic Chairs	5.9
6.	Microphoto Equipment	5.5
7.	Wheel/Track Vehicles	4.5
8.	Calculators	2.0
9.	Microfiche Reader/Printer	1.5
10.	Systems Furniture	1.1

NOTE:

Above excludes $42.2 million from the International Schedule which is bought by overseas personnel for use overseas. This value is primarily for:

Miscellaneous Furniture Conference Room Tables etc.	21.3
Systems Furniture	7.8
Prefabricated Structures	2.5
Cleaning Equipment & Supplies	2.4

Following is a further breakout showing the foreign source (FY-92):

CLASS	ITEM	COUNTRY	$ MILLIONS
36 IV	Copiers/ Laser Printers (MAS)		71.6
		Japan	59.5
		Netherlands	12.1
36 IV A	Copiers (SAS)	Japan	2.5
	TOTAL COPIERS/LASER PRINTERS		74.1
67 II & III B	Film/Photo Chem/ paper	Japan	6.1
		Switzerland	4.3
		Germany	.3
		Other-Belgium & Italy	.1
	TOTAL FILM PHOTO SUPPLIES		10.8
71 III N	ADP Furniture	Canada	9.6
74 I A	Typewriters (MAS)		5.3
		Japan	5.1
		Germany	.2
74 I B	Typewriters (SAS)	Japan	3.1
	TOTAL TYPEWRITERS		8.4
71 III K	Ergonomic Chairs	Germany	5.2
		Canada	.7
	TOTAL ERGONOMIC CHAIRS		5.9
67 IV B	Microphoto Equip.	Japan	5.5
23 I	Wheel/Track Vehicles	Japan	4.5
74 II A	Calculators	Japan	2.0
67 IV C	Microfiche Read/Print	Japan	1.5
71 II E	Systems Furniture	Canada	1.1

NOTE:

Above excludes $42.2 million from the International Schedule which is bought by overseas personnel for use overseas. This value is primarily for:

Miscellaneous Furniture	21.3
Systems Furniture	7.8
Prefabricated Structures	2.5
Cleaning Equipment & Supplies	2.4

Priority System

Question. In the House Report for fiscal year 1993 Appropriations, the Committee directed GSA change priority systems used by Federal agencies when placing orders. What have you done to meet this requirement?

Answer. The priority system used when placing orders with GSA is regulated by the Uniform Material Movement and Issue Priority System (UMMIPS), a Department of Defense regulation which governs the Federal logistics system. This regulation assigns levels of importance to each Federal activity, and prescribes priorities to be placed on orders consistent with the qualifications of the customer. The system contains 15 separate priorities which comprise three distinct Issue Priority Groups or IPGs. IPG I contains priorities 1–3, II contains priorities 4–8, and III contains priorities 9–15, with the priorities in IPG I being highest. Prior to May 1, 1992, the IPG distribution for orders placed with GSA held consistently at 5.0 percent, 19.3 percent, and 75.7 percent, respectively. The goal of this distribution is twofold: 1) to prioritize access to supply system stocks; and, 2) to encourage order planning for lower priority, longer delivery times in such a manner as to maximize transportation savings.

On May 1, 1992, in response to GAO audit recommendations and internal directives by the DOD IG concerning transportation expenditures, GSA changed the method by which IPGs are interpreted. The proportions are now: IPG I 2.5 percent; IPG II 6 percent; and IPG III 91.5 percent.

Question. What has been the productivity savings of this action?

Answer. In fiscal year 1992 our overall WDC–CSC transportation cost was $53,914,008, which was 4.6% of issues at selling price and $5.25 per line shipped. These figures were a tremendous improvement over fiscal year 1991 when our overall transportation cost was $59,223,682, 5.2% of issues, and $6.05 per line.

We believe the reason for this improvement was: the expansion of Guaranteed Traffic Arrangement (GTA) programs (Dedicated Truck Route (DTR) or Better Than UMMIPS (BTU)), especially in Region 4; the maximization of SCAPOS, especially in Region 7; and the major change to the priority system effective May 1, 1992, which increased consolidated shipments.

We do not know how much of the $5,309,674 savings was attributed to which major initiative.

In addition, a major undocumented savings benefits our customers. The more consolidated shipments GSA makes mean the fewer number of receipts which have to be processed by our customers. Customers can plan resources better and process less paperwork.

We cannot attribute productivity gains to only one initiative because much has taken place since fiscal year 1990. We have also consolidated our wholesale and retail bin operations, moved into two new facilities, and initiated a gain sharing test in one facility.

In fiscal year 1990, FSS shipped 9,585,171 requisitions using 2,828,635 manhours for a rate of 3.39 lines shipped per paid manhour. In fiscal year 1992, FSS shipped 10,251,788 requisitions using 2,669,577 manhours for a rate of 3.84 lines shipped per paid manhour. Productivity has increased 13.3 percent during this time period.

Fill Rate

Question. In the House Report for fiscal year 1993 appropriations, the Committee directed GSA to provide a fill rate of 90 percent rather than 95 percent as a way of saving money. What have you done to meet this requirement?

Answer. Specifically, the House Report stated "* * * Federal Supply Service should prepare its 1994 budget request estimating a 90 percent fill rate rather than a 95 percent fill rate * * *".

To clarify, the Federal Supply Service fill rate goal at that time was 95 percent only for those 355 items designated as Essential Business Items. The fill rate goal for the remaining 19,000 (approximately) items was 93 percent.

The Federal Supply Service interpreted the above statement to be advisory in nature and noted in its response that alternatives to the fill rate concept were already under consideration. Chief among these was a measurement of service rate, which combines fill rate with an assessment of how long unfilled requirements remain unfilled. The logic of the service rate concept is to retain emphasis on customer support while striking a balance between achieving inventory reductions by FSS and minimizing customer inventories.

Service rate was adopted as an official FSS performance measurement for fiscal year 1993. Service rate is defined as the ratio between first pass filled orders plus

back orders released within 15 days to the total number of orders received. The service rate goal for fiscal year 1993 is 93 percent.

For January 1993, the service rate was 95.3 percent. Interestingly enough, the actual fill rate was only 88 percent, thereby achieving the recommended fiscal year 1994 goal 9 months early.

Question. What has been the productivity savings of this action?

Answer. Productivity measurements are not a function of service/fill rate computations and are therefore not applicable. However, emphasis on the service rate concept has allowed FSS to reduce its inventory investment. The fiscal year 1992 inventory financial plan was reduced by $9 million for fiscal year 1993, and the actual inventory as of the end of January was $5 million below the fiscal year 1993 plan.

SECURITY CONTAINERS AND LOCKS

Question. Included in the conference report on the Treasury, Postal Service, and General Government Appropriations Act for 1993, is language pertaining to standards for security containers, vaults, and locks. Describe what changes have been made with respect to the authority or composition of the Interagency Advisory Committee on Security Equipment (IACSE). Describe the changes being contemplated with regard to the authority and composition of the IACSE after March 31, 1993.

Answer. GSA has not made, nor do we contemplate making, any change in the composition or authority of the Interagency Advisory Committee on Security Equipment.

Question. What is the GSA approved standard for security locks? Is it true that only one security lock meets the GSA-approved standard? Why was the X–07 model security lock taken off the GSA-approved list in December? Describe in detail the circumstances surrounding this action. Does the X–07 currently meet the GSA-approved standard? Is there any other standard developed by any other Federal agency that supersedes the GSA-approved standard? Is there any other lock that meets the GSA-approved standard?

Answer. The standard for combination locks used on GSA-approved security containers is defined in Federal Specification FF–L–2740. It is true that only one lock has passed the testing and is qualified under the specification.

The X–07 was taken off the GSA qualified products list in December, when testing revealed that the lock did not satisfy one of the specification requirements. GSA was given information which indicated/implied that the X–07 no longer satisfied a specification requirement. The lock was tested against a newly developed technique, failed, and was removed from the qualified products list. The lock has subsequently been modified, carefully retested and currently satisfies all requirements for qualification. The lock is on the qualified products list for use on security containers. This procedure of reexamination and retest is standard to qualified products.

There is no other standard superseding the GSA specification. To date, there is no other lock that has been tested and determined to meet the GSA specification. Furthermore, no other manufacturer has submitted a lock for testing.

Question. Is there currently a GSA solicitation for locks used for "barlock" cabinets? What precautions is GSA taking to ensure that none of these locks are being used for the storage of classified documents?

Answer. GSA solicited for locks that meet Federal specification FF–P–110, which are used on barlock cabinets. Individual Federal agencies are responsible for safeguarding all classified documents in the appropriate manner.

[Additional questions submitted for the record by Congressman McDade and the answers thereto follow:]

The responses given below are based upon the assumption that the $28 million for alternative fuel vehicles is reflective of the actions proposed by the General Services Administration (GSA) to stimulate jobs along with furthering the Federal sector's efforts in the alternative fuel area.

Mr. MCDADE. How many full time permanent jobs will be created by the $28 million included in the Economic Stimulus Package for the purchase of alternatively fueled vehicles? Are these jobs targeted to the currently unemployed?

ANSWER. The $28 million is projected for the Department of Energy (DOE) to use for the entire Federal fleet. The intent will be to convert existing Federal vehicles to alternative fuel usage at a number of agencies. Based upon distributions already done in the alternative fuel area, it is anticipated that GSA will account for the majority of vehicles. The total number covered by the $28 million will probably be approximately 9,000 units, with GSA doing 5,000 of those. Based upon this distribution, the GSA portion will generate 240,000 manhours of labor. It is expected that

this effort by the Federal sector will generate matching efforts by State, local, and private sector fleets, so that the jobs initially created by the Federal vehicles will become permanent as other fleets move to alternative fuels.

These jobs will involve skilled laborers/mechanics. To the extent that such people are unemployed, this effort will greatly assist them.

Mr. McDade. What criteria were used to determine the number of jobs created? Provide a breakdown of both direct and indirect jobs created by the appropriation of these funds.

Answer. We used workload numbers supplied by established firms in the conversion marketplace. These equate to 48 hours of labor to convert one vehicle. The manhours of work generated are all direct jobs. We do not have an estimate of the indirect jobs that will be created, although it is anticipated that the introduction of these vehicles will stimulate job growth in the parts manufacturing, refueling and repair industries.

Mr. McDade. What responsibilities does FSS have in the obligation of these funds?

Answer. With DOE receiving the overall appropriation, FSS responsibilities would relate only to that portion of the funding that is provided by DOE to GSA. As indicated, this will probably translate into 5,000 of the vehicles in GSA's fleet being converted. Once FSS has received the funds, it will arrange for the conversion of the 5,000 units and pay the conversion firms directly for the work performed.

Mr. McDade. Will the FSS require additional administrative funds in order to implement this proposal? How much will this proposal cost FSS to administer?

Answer. FSS will not request any additional administrative funds. The administration of this initiative will be part of GSA's ongoing effort to introduce alternative fuel vehicles into its fleet. Total administrative costs associated with this particular initiative could approximate 10 percent.

Mr. McDade. For purposes of the Budget Act, the Stimulus Package is being considered an "emergency". Do you consider the purchase of alternatively fueled vehicles an emergency? Why is this an emergency? Why can't the purchase of these vehicles wait until the regular 1994 appropriations cycle?

Answer. Yes, GSA does consider it to be an emergency situation. There is an immediate need to take actions that will create jobs, assist in improving the country's air quality, and help create more energy secure fuel sources. The GSA vehicles will be concentrated in locations covered by both the Energy Policy Act and the Clean Air Act Amendments of 1990. Immediate action by the Federal sector is crucial to development of fueling and repair infrastructures, which in turn are necessary before any significant action can be taken by private sector fleets and the general public. Waiting until the regular 1994 appropriation cycle would delay the implementation of this program for at least one year, which in turn would further delay the development of the necessary infrastructure.

Mr. McDade. Typically, emergency appropriations become part of the baseline for the subsequent fiscal year. Will this $28 million become part of the FSS FY 1994 baseline?

Answer. As indicated, GSA would receive a portion of the $28 million. Based upon the 5,000 vehicles estimated for GSA's fleet, this would translate into approximately $15.5 million. We estimate that conversions would start immediately after the funds become available, but that the initial ones would be done on the open market. Concurrent with these initial conversions, GSA would also develop contracts for conversion which would allow for larger numbers to be done more quickly. It would probably take 90 to 120 days to award these contracts from the time funds became available with the anticipated completion of the conversions four months after that. Assuming approval to start is made in March 1993, approximately 4,000 of the conversions could be done in 1993. The remaining 1,000 would be done in 1994. The fiscal year 1994 baseline would not be affected.

Mr. McDade. How much of this $28 million will be obligated during FY 1993 and how much will be outlayed? What are the outyear outlays associated with this proposal?

Answer. GSA's entire portion ($15.5 million) of the $28 million would be encumbered in 1993. Actual outlay in 1993 is estimated at $12.5 million. The balance of the outlay ($3 million) would occur in 1994.

[Additional questions submitted for the record by Congressman Wolf and the answers thereto follow:]

Aircraft Management

Mr. Wolf. I understand that GSA's Federal Supply Service maintains about 1,300 civilian aircraft for the federal government worth about $2 billion. The cost of operating these aircraft is about $750 million annually.

Most of these aircraft are used for technical purposes such as firefighting, surveying, and drug enforcement by federal departments and agencies. However, GAO testimony before a Senate committee suggests that about 100 federally owned aircraft are used primarily for passenger transportation.

Bill Clinton just issued an Executive Memorandum restricting the use of some of these aircraft. But clearly there are very serious problems facing this program——

GAO has stated that "Neither OMB or GSA has yet provided the necessary central management agency leadership, oversight, or enforcement to reform operating agencies aircraft ownership, management and use practices."

In testimony before the Senate last year, General Services Administration Inspector General stated that "GSA's aircraft inventory is not current, accurate or complete."

I have a series of questions related to GSA's oversight of the Federal Government's civilian aircraft fleet.

Mr. Daniero. The Federal Aviation Management Information System (FAMIS) fiscal year 1991 reports document ownership of 1404 aircraft, worth $2.3 billion with an operating expense of $1.02 billion. GSA does not maintain or have direct oversight over any aircraft.

Types of Aircraft, Usage and Operation Costs

Mr. Wolf. Could you provide a list of all federally owned civilian maintained; what type of aircraft; where they are located; what their primary purpose is; and which Federal agencies have access to these aircraft?

Mr. Daniero. We will submit under separate cover a copy of the fiscal year 1991 FAMIS inventory documenting ownership information for the 1,404 Federal aircraft including Department, agency, ownership category, registration number, serial number, location, mission, acquisition value, acquisition date, aircraft status code, delete date, and if the aircraft is available for sharing with other agencies. However, agencies do not report actual instances of sharing to GSA. The fiscal year 1992 reports will be finalized in May 1993. (Note: The report was submitted directly to the Committee.)

Mr. Wolf. What is the average age of the civilian aircraft fleet?

Mr. Daniero. The average age reported to GSA for the Federal fleet in fiscal year 1991 was 8.7 years.

Mr. Wolf. What is the most expensive government civilian aircraft, in terms of hourly costs, operated under the oversight of GSA? Which agency operates those aircraft?

Mr. Daniero. Based on the cost data reported to GSA, the most expensive government civilian aircraft is the U.S. Customs Service's Nomad N22/24. In FY-91 the Customs Service reported the aircraft flew 2 hours, for a total operating cost of $788,757 or $394,378 per hour.

Aircraft Use for Political or Personal Purposes

Mr. Wolf. In general, which employees in Federal departments and agencies have access to these aircraft? Are they reserved exclusively for political appointees and senior career employees?

Mr. Daniero. Each agency determines internally which Federal employees may access aircraft. We have no information regarding any Federal aircraft reserved exclusively for political appointees and senior career employees.

Mr. Wolf. What guidelines does the GSA have to ensure that these aircraft are not used for political purposes?

Mr. Daniero. OMB Circular A-126, Improving the Management and Use of Government Aircraft of May 22, 1992, limits such use to officials who are required by the President or an agency head to travel on government aircraft "because of bona fide communications and security needs of the agency or exceptional scheduling requirements." This only applies to Senate-confirmed Presidential appointees and certain others not prohibited by the Hatch Act from engaging in political activities and all such uses must be reimbursed. GSA is promulgating this policy in its Federal Property Management Regulation (FPMR) 101-37—Government Aviation Administration and Coordination.

Mr. WOLF. If a Federal aircraft is used for both official business and political activity on the same trip, is the Federal Government reimbursed for the political portion of the trip?

Mr. DANIERO. Yes. The Government shall be reimbursed the appropriate share of the full coach fare for any portion of the time on the trip spent on political activities.

Mr. WOLF. Do officials at the White House have access to these aircraft?

Mr. DANIERO. Officials at the White House have access to Federal aircraft conducting travel in accordance with the White House memorandum issued February 10, 1993. Past activity is not known by GSA. Since October 1, 1992, agencies are required to report all travel by senior Federal officials on Government aircraft to GSA and OMB is defined by OMB Circular A-126, paragraph 5.e.

Mr. WOLF. Under what instances are Federal employees allowed to use these aircraft for personal purposes? Do you have any evidence that would indicate that any of these aircraft have been used for other than official purposes?

Mr. DANIERO. Federal employees may only travel on government aircraft for personal purposes if such travel is (1) incidental to official travel and does not increase the cost of operating the aircraft; (2) considered "required use travel," as defined by A-126; or (3) made on a "space available" basis. In the case of "required use travel" and for most instances of "space available" travel, the government must be reimbursed, as required by A-126.

As stated in A-126, "Official travel means three different things. There is travel to meet mission requirements, required use travel, and other travel for the conduct of agency business." We have no evidence aircraft have been used for other than official purposes.

GSA OVERSIGHT

Mr. WOLF. How effective has the GSA been in implementing 1989 OMB Circular A-126, which requires that GSA "provide guidance for the procurement, operation, safety and disposal of Federal civilian aircraft"?

Mr. DANIERO. GSA issues guidance on Federal aircraft management with the advice of the Interagency Committee for Aviation Policy known as ICAP. GSA has developed a Tactical Plan to meet each of its responsibilities under A-126 including promulgating regulatory guidance on procurement, operation, safety and disposal. GSA has issued guidance on aircraft data collection and reporting, operations, and safety, and plans to issue guidance on disposal and procurement in 1993.

Mr. WOLF. The GSA recently created a governmentwide aircraft management system and an aviation management group. How successful have these two changes been in improving GSA's oversight of all Federal civilian aircraft?

Mr. DANIERO. The FAMIS has improved tremendously since its first days in 1984, when it was known as the Aircraft Information System, called AIS. It has evolved into a sophisticated management tool. The aviation management group has been more fully staffed, which has helped it achieve its mission. Additionally, the group was raised to Division level status in order that it receive the top level management support the program requires.

Mr. WOLF. How many GSA employees are dedicated to this aviation management group? Has the Federal government's hiring freeze affected the staffing of this group? Is this level of staff adequate to oversee the entire civilian aircraft inventory?

Mr. DANIERO. GSA has dedicated eight individuals to the Aircraft Management Division. The Federal hiring freeze has not affected the staffing of the Division. However, we believe additional skills are required and therefore have initiated redirecting internal resources to staff the program more fully. Regardless, the success of the program depends on significant additional support from the Federal agencies operating aircraft.

Mr. WOLF. The GSA Inspector General's office has been studying the aircraft management program for the past year. What conclusions have been reached by the IG about how the program could be better run?

Mr. DANIERO. The IG report issued last March 26, 1992, focused on the validity and reliability of agency data; it suggested additional actions be taken to reconcile the FAA and GSA aircraft inventory data bases, which have been done.

Mr. WOLF. Does the GSA require individual departments and agencies to keep records and manifests of all aircraft operations?

Mr. DANIERO. OMB guidance requiring Departments and agencies to keep records and manifests has been implemented and communicated to all Federal agencies. The guidance requiring agencies to report travel by senior Federal officials was pro-

vided to the agencies on September 29, 1992. A pending FPMR issuance will further establish this guidance and include a recent White House Directive in this regard. The first report documenting senior Federal officials' travel for the first half of fiscal year 1992, is due to GSA on May 31.

Mr. WOLF. What is the least expensive government civilian aircraft operated, in terms of hourly costs, under the oversight of GSA? Which agency operates those aircraft?

Mr. DANIERO. The least expensive government civilian aircraft is the Piper Cub, belonging to the Department of the Interior's Park Service. The Park Service reported flying the Piper Cub 371 hours in FY-91 for a total operating cost of $21,975 or $59.23 per hour.

Mr. WOLF. Of these aircraft, how many were purchased from foreign manufacturers? Why were these aircraft selected over American made aircraft?

Mr. DANIERO. The FAMIS documents the ownership of 1,404 aircraft by Federal civilian agencies. Of these, 1,238 are products of domestic manufacturers and 166 are products of foreign manufacturers. Specifically, of the 166 foreign made aircraft, 96 are Aerospatiale Dolphins helicopters in the service of the U.S. Coast Guard. These aircraft were acquired through competitive procurement in compliance with the Trade Agreements Act.

Mr. WOLF. Are all of these aircraft in flyable condition or is it correct that some are in storage or in museums?

Mr. DANIERO. The 1,404 aircraft reported in the FAMIS inventory are all operational. Non-operational aircraft, including those in museums, are documented separately. GSA coordinates with the FAA to be sure the two agencies have identical records regarding those non-operational aircraft.

Mr. WOLF. It has been reported that some federal civilian aircraft are underutilized or unneeded by their agencies. What does the GSA consider an adequate level of usage to justify its continued ownership by the Federal Government. In 1992, how many of these aircraft were flown fewer than 100 hours?

Mr. DANIERO. A single standard is inappropriate given the range of missions performed by the agencies. For example, some aircraft are only used to respond to certain emergencies and are not scheduled for routine use. Agencies reported 120 aircraft with utilization of less then 100 hours.

AIRCRAFT ACQUISITION AND RETIREMENT

Mr. WOLF. How many aircraft did the Federal Government purchase in fiscal year 1992?

Mr. DANIERO. Fiscal year 1992 FAMIS data is not yet available. The annual report is expected to be finalized in early April 1993. In FY-1991, 119 aircraft were acquired through purchase, transfer, forfeiture, etc. Additionally, FAMIS has recently been enhanced in order to collect acquisition by type data in the future.

Mr. WOLF. What type of aircraft were these and how much did they cost?

Mr. DANIERO. The variety of aircraft acquired in fiscal year 1991 are documented in the Acquisition and Deletion Report, which we will submit under separate cover. (Where no cost is cited for a particular aircraft in the report, the agency did not report it to GSA.)

Mr. WOLF. For which departments or agencies were these aircraft purchased?

Mr. DANIERO. The Departments and agencies acquiring aircraft in FY-1991 are documented in the Acquisition and Deletion Report which we will submit under separate cover.

Mr. WOLF. How must departments and agencies justify a need for new aircraft? Does GSA have the final word in whether or not an agency receives new aircraft?

Mr. DANIERO. The Departments and agencies are required to justify aircraft in accordance with OMB Circular A-76, as further specified in OMB Circular A-126. Agencies are directed by A-126 to provide GSA with cost justifications for analysis by the Aircraft Management Division, but there is no requirement to obtain GSA approval before acquisition. Few justifications have been received and currently GSA has no input into the acquisition process.

Mr. WOLF. Which departments or agencies requested, but did not receive, aircraft in 1992. Why were these requests denied?

Mr. DANIERO. Agency aircraft requirements are not received by GSA and we have no data on unmet requirements.

Mr. WOLF. How many aircraft were withdrawn from service in 1992? What was their fate (were they sold, destroyed, etc.)?

Mr. DANIERO. Fiscal Year 1992 data are not available. The annual report is expected to be finalized in early April 1993. In FY-1991, 33 aircraft were deleted from

service. In addition, FAMIS has recently been enhanced to collect data on deletion type e.g. donation disposal in order to collect this data in the future.

Sale of Aircraft

Mr. Wolf. When Federal civilian aircraft are sold by the Government is the money returned to general receipts account in the Treasury department or does the individual agency which owned the aircraft keep the money?

Mr. Daniero. The money could go into the Treasury general fund, or be applied to the purchase of a replacement aircraft if an appropriate waiver is requested and approved through GSA. The Departments of Justice and Treasury can retain receipts from the sale of seized aircraft in their Forfeiture Fund.

GSA Oversight

Mr. Wolf. What guidelines do GSA or individual agencies have regarding spouses, dependent and other non-official passengers flying on these aircraft?

Mr. Daniero. This guidance and direction appears in OMB Circular A-126 of May 22, 1992. Spouses, dependents and other non-official passengers may travel on Government aircraft under very specific circumstances, such as on a space available basis, subject to agency approval, and are generally required to reimburse the Government.

Mr. Wolf. Do GSA or individual agencies require reimbursement by these passengers?

Mr. Daniero. As stated above, OMB Circular A-126 requires these passengers to reimburse the government in most cases and agencies are required to report such travel to GSA and OMB semiannually.

The exemptions are first, those authorized under 10 U.S.C. 4744 and implementing regulations like DOD employees/dependents traveling on a space available basis and secondly, civilian personnel and their dependents in remote locations, i.e., not reasonably accessible to regularly scheduled commercial service.

Mr. Wolf. President Clinton's memorandum stated that "Government aircraft shall not be used if commercial airline or other aircraft service is reasonably available." Does GSA already encourage individual departments and agencies to consider using commercial modes of transportation rather than using federally owned aircraft? How does GSA plan to enforce Mr. Clinton's memorandum?

Mr. Daniero. OMB Circular A-126 and the White House memorandum require individual Departments and agencies to use commercial transportation unless certain circumstances apply, e.g. using Government aircraft is cheaper. GSA, as part of its responsibility to implement the OMB guidance, codifies this guidance in its FPMR and the Federal Travel Regulation, and provided reporting formats to agencies last September. GSA's role is to collect the travel data for the use of Congress, GAO and agencies' Inspectors General. Enforcement will improve with the collection and reporting of data on the use of aircraft by the Departments and agencies and the use of those data by Congress and other reviewers.

Mr. Wolf. How well do Federal Departments and agencies assist GSA in insuring that accurate information is complied on these aircraft?

Mr. Daniero. Information accuracy has improved with GSA's implementation of FAMIS, its enhancements, and the continuing external scrutiny by Congress and others.

Safety Considerations

Mr. Wolf. GAO reports that these 1,300 aircraft are not subject to FAA regulations that are imposed upon all other private and commercial aircraft in the United States. Is that correct?

Mr. Daniero. Yes. However, GSA has issued safety regulation including FPMR 101-37.1100—Accident and Incident Investigation and Reporting, and the Federal Aircraft Operations Manual Guide, to provide guidance on safety-related aspects to Federal aircraft operations. These are the first of several safety and operations based regulations/guidance to be issued.

Mr. Wolf. How does GSA insure the safety and airworthiness of these aircraft?

Mr. Daniero. GSA does not ensure the safety and airworthiness of aircraft. Federal agencies are responsible for ensuring the safety and airworthiness of their aircraft. Under A-126, GSA is responsible for coordinating the development of, among other things, guidance for the safety of civilian agency aircraft. Accordingly, GSA continues to develop safety standards through the ICAP for incorporation in to the FPMR to meet its responsibility under A-126 and to assist agency members.

Mr. WOLF. Are centralized records kept of routine maintenance?

Mr. DANIERO. Yes, routine maintenance records are collected and maintained by the aircraft operators.

Mr. WOLF. In Senate testimony IG William Barton stated that "GSA can and should do more to develop standards and guidance for safety, procurement and disposal of aircraft." How has GSA followed up on this?

Mr. DANIERO. As stated earlier, GSA has developed a tactical plan which provides milestones for accomplishment in each of these ares. Safety guidance has been and will continue to be issued with procurement/disposal guidance forthcoming. GSA has and continues to develop and implement policy through the ICAP manuals, etc. and the FPMR process.

Mr. WOLF. Does the Federal Government employ its own pilots for these aircraft or are crews contracted on an "as needed" basis?

Mr. DANIERO. Agencies use contracted pilots for many missions. However, most aircraft pilot crews are full-time Government employees. Information on the number of pilots and the proportion of contractor versus Government employees is not collected by GSA.

Mr. WOLF. Are these pilots required to meet all FAA medical and licensing standards? Is it possible for a non-FAA licensed person to operate a federal civilian aircraft?

Mr. DANIERO. While there is no Governmentwide standard, pilots are required to meet their respective agency standards which often are more stringent than those of the FAA.

Mr. WOLF. On December 18 last year a Department of Energy owned aircraft crashed in Billings, Montana, killing several people. I understand the NTSB is investigating the cause of that crash. Could you share with the Committee what has been learned so far in that investigation?

Mr. DANIERO. The NTSB does not provide GSA with accident investigation data. The NTSB should be contacted directly.

[The budget justification materials follow:]

I. MISSION AND RESOURCES

FEDERAL SUPPLY SERVICE RESOURCES SUMMARY
$(Thousands)

	FY 1992 Actual	FY 1993 Estimate
Appropriations:		
Operating Expenses, Federal Supply Service	$53,530	$56,144
No-year Carryover	0	700
Expenses, Contract Transportation Audits (permanent)	12,570	13,561
OE, FSS Reimbursable (obligations):	$4,671	$6,061
General Supply Fund:		
Income	$2,813,062	$2,823,483
Expense	2,723,076	2,729,222
Gain/(Loss)	89,986	94,261
Business Volume (Obligations)	2,688,951	2,879,509
EMPLOYMENT (FTE)	4,621	4,684

The Federal Supply Service (FSS) mission is financed through several accounts and sources. Operating Expenses, FSS, a direct annual appropriation, provides for property management, aircraft management, transportation services, transportation audits, schedules contracting, regulatory, and policy activities. The OE, FSS Reimbursable account provides supply support services to other Government agencies on a reimbursable basis. Expenses of Transportation Audit Contracts and Contract Administration activities are financed from overcharges collected from carriers. The General Supply Fund is used to recover the full cost of all management, operation, and overhead expenses of the FSS fleet and supply operations activities through the prices and rates charged for goods and services provided to other agencies.

FSS provides quality goods and services required by Federal departments and agencies to assure that their needs are efficiently and effectively met, at the least possible cost to the taxpayer. Specifically:

PROPERTY MANAGEMENT:

To eliminate unnecessary expenditures and maximize the utilization of Federally owned personal property, FSS directs and coordinates, on a worldwide basis, a Government property management program. Under this program, excess personal property is transferred to other agencies, is donated to eligible recipients, or is disposed of through competitive public sales.

I. MISSION AND RESOURCES (Continued)

FEDERAL SUPPLY SERVICE RESOURCES SUMMARY

TRANSPORTATION:

FSS administers Governmentwide programs for transportation and travel management, transportation audits, and fleet management to meet the requirements of Federal agencies. Through the travel management program, contracts are established with travel agencies, airline companies, and a travel charge card company. Negotiations are then arranged with hotels, so that FSS can offer Federal employees greatly reduced rates while on official travel.

In addition, as the Government's civilian freight manager, FSS provides rating and routing services to customer agencies at 20-50 percent off commercial rates, as well as small package overnight delivery service at a savings of 70 percent below commercial rates.

GSA, FSS, is required by OMB Circular A-126 to establish Governmentwide standards for managing the acquisition, use and disposal of agency aircraft. The Government inventory, excluding DOD, includes over 1,400 owned and leased aircraft with a value in excess of $1 billion.

TRANSPORTATION AUDITS:

The Transportation Audits Program is responsible for promulgation of policies and procedures governing procurement documentation, payment, and audit of worldwide transportation services furnished to the U. S. Government; adjudication and settlement of transportation claims against the Federal Government worldwide; and expansion of agencies' delegated prepayment audit authority.

SUPPLY OPERATIONS:

As a provider of supplies, FSS determines the method of supply that is most economical and effective from among its Stock, Special Order, and Federal Supply Schedule Programs. Through the FSS Stock Program, Federal workers are able to perform their functions by using over 17,000 commercial items which are received, stored, and issued through the FSS wholesale distribution system. Under the Special Order Program, supplies or services, for which demand is limited or related to special needs, are purchased by FSS for direct shipment from the vendor to the user. The Federal Supply Schedule Program is utilized when Federal requirements are widely diversified and/or there is rapidly evolving state of technology present with the product lines or services.

FLEET OPERATIONS:

To provide agencies with economical fleet management services, FSS operates an interagency fleet management system comprised of 134,000 vehicles. In conjunction with the Department of Energy, FSS is introducing alternative fuel vehicles into the Federal fleet. These vehicles are being acquired under the auspices of the Alternative Motor Fuels Act of 1988 (42 U.S.C. 6201 et seq.). There are already 65 methanol flexible fuel sedans, 77 dedicated compressed natural gas 8-passenger vans, 24 ethanol flexible fuel sedans, 16 methanol flexible fuel 8-passenger vans, and 400 dedicated compressed natural gas 3/4 ton pickup trucks in use.

I. MISSION AND RESOURCES (Continued)

OPERATING EXPENSES, FEDERAL SUPPLY SERVICE (DIRECT)
$(Thousands)

	FY 1992 Actual	FY 1993 Estimate
Schedules	$19,845	$19,698
Transportation	16,762	18,410
Property Management	16,923	18,736
Total Budget Authority	$53,530	$56,844
Employment (FTE)	808	823

Through our Federal Supply Schedules Program, FSS establishes contracts and distributes schedules to our clients who place orders directly with schedule vendors. Vendors, in turn, ship to and bill the ordering activity. One of the largest users of our schedules is DOD. Although officially "optional" for DOD use, schedules have been endorsed as a preferred source of supplies and services.

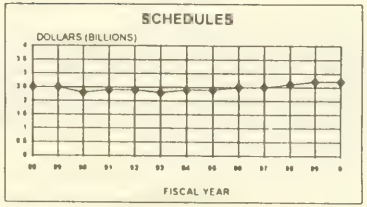
While the service sector of the economy is expanding, the Schedules Program is expanding as well to meet our clients' needs. In recent years, this Program has introduced service contracts for debt collection, employee relocation, auditing of transportation bills and financial services such as the governmentwide commercial credit card service.

I. MISSION AND RESOURCES (Continued)

OPERATING EXPENSES, FEDERAL SUPPLY SERVICE (DIRECT)

Business Volume

88	$ 25B
89	25
90	23
91	24
92	24
93	23
94	24
95	24
96	25
97	25
98	26
99	27
00	27



In fiscal year 1993, the Schedules Program sales volume is projected to be $2.3 billion. The decrease in program volume is due in part to conversions of items to another method of support. This is done when we identify that individual items or families of items can be more economically provided via our Stock or Special Order Programs.

The Schedules Program is our single largest means of providing supplies and services. It, too, will be impacted by agency consolidations and reductions in Federal employment. Unlike the Stock and Special Order Programs, this program is funded by appropriation. Expected budget reductions affecting GSA's appropriated fund will cause a closer examination of the merits of continuing coverage for lesser used supplies and services. In the face of these conditions, sustained emphasis and commitment will be placed on client satisfaction with the Schedules Program to assure that it maintains its stature as a source for quality goods and services.

The GSA schedules programs, which include both Information Resources Management Service and FSS schedules, has been identified as high risk by the OMB High Risk Program. A criticism of the program is the possible misuse of the schedules by ordering agencies. Automated Products Listing Service (APLS), a computer database system, is a tool that reduces procurement research time and provides basic assistance to our customers in product selection on multiple award schedules. This service provides customers with 24 hours access to current information on contracts, and also provides customers with ordering and documenting procedures. The simple step-by-step procedures apply to both mandatory and nonmandatory users of FSS Federal Supply Schedules. The menu selections and search techniques enable the customers to rapidly identify suitable products which match their requirements. The items on the schedules are arrayed in descending price order, and updated within 48 hours. To further assist customer agencies, an on-line bulletin board system (BBS) was added to APLS. The BBS contains important announcements (i.e., contract modifications, promotional sales, discounts, etc.) which apply to current GSA contracts. In addition, an integral E-Mail system is fully implemented to facilitate communication between GSA, contractors, and customers. Since APLS's initial testing, and through the use of in-house resources, the product and pricing data for six schedules has been entered into the system where it is currently available for the use of our customers.

The Property Management Program is responsible for communication with Federal agencies concerning the availability of personal property excess to one agency's need; the transfer of excess personal property from one agency to another; the donation of surplus property to authorized recipients, such as state or local governments; and the sale of surplus property to the public with its value recovered by the Government.

I. MISSION AND RESOURCES (Continued)

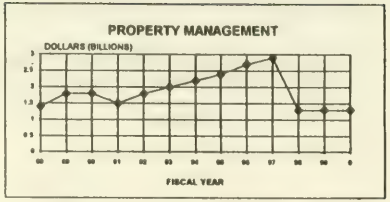
OPERATING EXPENSES, FEDERAL SUPPLY SERVICE (DIRECT)

Due to DOD base closures, force reductions, and drawdowns in inventory levels, there will be a heavy workload impact on GSA. DOD estimates that their number of line items generated as excess and surplus property will increase by 10 percent in fiscal year 1994. This will have an impact on our ability to ensure that excess property is utilized to the fullest and that surplus property is allocated on a fair and equitable basis. The increased workload may also result in a substantial increase in the rate of property generations ending up in sales action in lieu of Federal agency transfers or donations.

GSA management of the Federal Surplus Property Donation Program has been identified in a draft GAO report as requiring improvement. GSA's Office of Inspector General has also designated the Donation program in a recent report to Congress as a highly vulnerable program, susceptible to waste, fraud, and abuse. Approximately $500 million in surplus Federal property was transferred to the States in fiscal year 1992. Dramatic increases in surplus property in the out-years are expected due to military base closures, overall troop reductions, and associated force levels. With the anticipated increases in property transfers to the States due to DOD actions, the risk is likely to increase.

Business Volume:

88	$ 14 B
89	18
90	18
91	15
92	18
93	20
94	22
95	24
96	27
97	29
98	13
99	13
00	13



From 1998 forward we see a constant but significantly reduced profile of business volume in the Utilization and Donation Programs.

The Donation Program will continue to address the needs of the homeless in conjunction with the activities of GSA's Federal Property Resources Service in its disposal of real property.

I. MISSION AND RESOURCES (Continued)

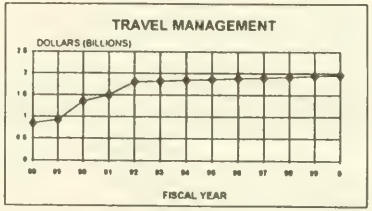
OPERATING EXPENSES, FEDERAL SUPPLY SERVICE (DIRECT)

The decade of the eighties was a period of new ventures and accelerated growth for FSS travel programs. FSS introduced or expanded Federal air discount contracts; use of commercial travel management centers; discount hotel/motel accommodations; and commercial charge cards for Federal travel expenses, known as the Travel and Transportation Expense System.

The best measure of the surge in service volumes is the growth demonstrated by the use of our Travel and Transportation Expense System (charge cards).

Business Volume

88	$ 0.85 B
89	0.925
90	1.35
91	1.5
92	1.8
93	1.82
94	1.84
95	1.86
96	1.88
97	1.9
98	1.92
99	1.94
00	1.96

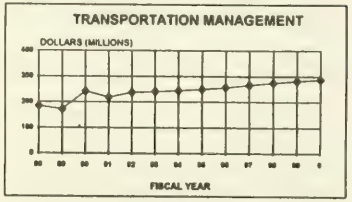


During the decade of the nineties, with Federal travel budgets likely to remain constrained, these programs will reach maturity as agency utilization peaks. However, technological advances may induce growth in the share of travel expenses charged to the charge card. Further, the explosion of automation initiatives will offer the potential for dramatic improvements in service delivery and administration of travel. Due to the size of the Federal market share in travel expenditure, industry attention is focusing more intently upon how best to serve this sector. FSS will welcome this interest. We will continue to involve our clients in dialogue with industry and will, in a clear voice, express the Federal travelers' and taxpayers' interests and expectations.

To reduce the cost of transporting freight and parcels, FSS offers, through the Transportation Management Program, rate and routing services for freight; standard freight carrier rules, accessorial services, filing requirements and rate bases for carriers' tenders; reduced rates for movement of household goods associated with work-related relocations; and next day, small-package delivery service via contract and agreement (i.e., tender).

Business Volume:

88	$ 184 B
89	.172
90	243
91	219
92	238
93	241
94	245
95	250
96	257
97	267
98	276
99	282
00	288



Growth is predicated upon anticipated use of our Standard Tenders of Service after their automation and expanded freight services such as air freight.

The Transportation Audits Program has central audit authority for reviewing and recovering transportation overcharges paid to commercial carriers by Federal Government agencies worldwide. The program audits through its postpayment audit contractors, and performs final technical review of freight and passenger transportation vouchers paid by the Government; adjudicates and settles transportation claims against the Government worldwide; and collects and tracks overcharges resulting from the audit of paid transportation vouchers and claims.

I. MISSION AND RESOURCES (Continued)

OPERATING EXPENSES, FEDERAL SUPPLY SERVICE (DIRECT)

In testimony before the Subcommittee on General Services, Federalism and the District of Columbia, the GAO reported "GSA still has not yet provided its aviation management group the resources, staffing levels, or top management support needed for the agency to fulfill its envisioned central management leadership, technical assistance, and supporting oversight role in the aircraft area."

FSS has developed a Federal Aviation Management Tactical Plan which defines initiatives and resources requirements needed to meet the new GSA aviation responsibilities. The plan identifies the resources required to address each program initiative. The Subcommittee has indicated additional hearings will follow-up on GSA's commitment to aviation management. Initiatives were developed to meet each A-126 responsibility, relying to the maximum on agency cooperation and Interagency Committee for Aviation Policy (ICAP) working groups to develop requisite products. The requirements were based on analysis of past time-lines, product cycles, contractor support, and ICAP coordination.

I. MISSION AND RESOURCES (Continued)

OPERATING EXPENSES, FEDERAL SUPPLY SERVICE (REIMBURSABLE)
$(Thousands)

	FY 1992 Actual	FY 1993 Estimate
Miscellaneous Reimbursable	$4,671	$6,061
Total Reimbursable Obligations	$4,671	$6,061
Employment (FTE)	59	59

This activity provides supply support services to other Government agencies on a reimbursable basis. The principal activities involve: (1) providing technical support services to the Government of Saudi Arabia for a joint U.S./Saudi Arabian project known as CENPRO, for centralized procurement; (2) providing personal property services related to seized and forfeited property; and (3) providing for the sale of GSA's Interagency Fleet Management System (IFMS) vehicles. The IFMS, funded through the General Supply Fund (GSF), is a full cost recovery program. The IFMS vehicle disposal workload is funded reimbursably to reflect total life cycle costs (acquisition to disposal) in the fleet program.

Authorizing Language

Section 601 of the Economy Act of 1932, as amended, provides basic authorization for reimbursable services to be performed by Government agencies. The CENPRO supply management project is carried out under the auspices of the Joint Commission on Economic Cooperation and in accordance with the provisions of the Technical Cooperation Agreement between the Government of the United States and Saudi Arabia signed in 1975.

I. MISSION AND RESOURCES (Continued)

EXPENSES OF TRANSPORTATION AUDIT CONTRACTS
$(Thousands)

	FY 1992 Actual	FY 1993 Estimate
Audit Contracts	$5,700	$5,200
Contract Administration	6,870	8,361
Total Obligations	$12,570	$13,561
Total Overcharges Identified	$26,368	$28,000
Employment (FTE)	45	46

Public Law 99-88 provided that expenses of Transportation Audit Contracts and Contract Administration activities shall be financed from overcharges collected from carriers on transportation bills paid by the Government and other similar type refunds.

Public Law 99-627 granted GSA authority to delegate to the Government agencies prepayment audit of their transportation bills before they pay transportation carriers, permanent authority to pay transportation audit contractors from carrier overcharges collected, and authority to transfer net overpayments collected to the Treasury.

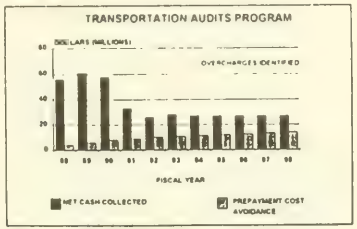
I. MISSION AND RESOURCES (Continued)

EXPENSES OF TRANSPORTATION AUDIT CONTRACTS

Following is a graph showing the identification and recovery of transportation overcharges applicable to Government transportation billing documents. Fiscal year 1994 forward projects activity levels based on the current mode of operation.

BUSINESS VOLUME

Post Payment Overcharges Indentified	Prepayment Cost Avoidance
88 $ 56 M	4 0
89 61	6 0
90 58	8 1
91 33	9 1
92 26	10 5
93 28	11 0
94 27	11 5
95 27	12 1
96 27	12 7
97 27	13 3
98 27	14 0



Collections have declined since Fiscal Year 1990 due to the suspension of airline collections. It is anticipated that postpayment collections will decline further beginning in Fiscal Year 1993 due to DOD cutbacks and the expansion of the prepayment audit program. We envision more agencies participating in the prepayment audit program and, thus, greater emphasis is being placed upon cost avoidance rather than cost recovery.

The technology now exists to audit transportation bills prior to payment as GSA has shown with its Prepayment Audit contracts. In order to facilitate the movement of Government agencies from a postpayment environment, a legislative package has been prepared to change the applicable laws by directing agencies to perform or have performed verification for correctness of transportation charges.

Over the next several years, GSA will discontinue and reduce its postpayment audit activities. GSA will continue oversight of the audit of transportation bills and continue to adjudicate claims between carriers and agencies.

This legislative package is currently in the internal agency clearance process.

I. MISSION AND RESOURCES (Continued)

GENERAL SUPPLY FUND, FEDERAL SUPPLY SERVICE
$(Thousands)

	FY 1992 Actual	FY 1993 Estimate
Supply Operations:		
Stores, Regular	$1,003,219	$1,033,369
Stores, Direct Delivery	56,847	66,585
Special Order	964,538	1,037,934
Export, Miscellaneous	26,007	14,644
Fleet Management	283,955	286,870
Capital Investment:		
Supply Operations	9,277	4,230
Fleet Management	345,108	435,877
Total Obligations	$2,688,951	$2,879,509
Total Income	$2,813,062	$2,823,483
Total Expenses	2,723,076	2,729,222
Net Gain/(Loss)	89,986	94,261
Employment (FTE)	3,709	3,756

The General Supply Fund is used to recover the full cost of all management, operation, and overhead expenses of the Supply Operations Program and the Fleet Management Program through the rates charged for goods and services provided to other agencies. The General Supply Fund is authorized to retain earnings to cover anticipated increases in inventory replacement costs, the cost of replacing fleet vehicles, and any prior year losses that may have occurred. Any net income above these costs is returned to the US Treasury.

As of September 30, 1992, the General Supply Fund had a net unfunded retained earnings requirement of $26.8 million to cover the impact of inflation on inventory and no proceeds were returned to the Treasury. While fiscal year 1993 revenues should be sufficient to absorb the current year requirement, it is not believed that adequate earnings will be generated to absorb the entire balance. Therefore, it is anticipated that no proceeds will be returned to Treasury in fiscal year 1993 as well.

I. MISSION AND RESOURCES (Continued)

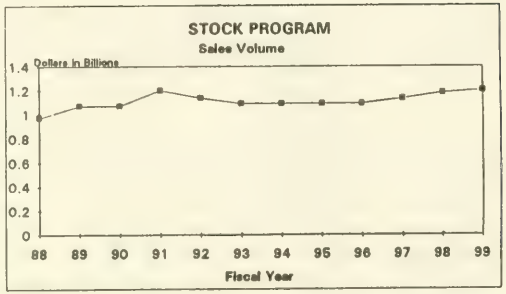
GENERAL SUPPLY FUND, FEDERAL SUPPLY SERVICE

A total of 3,709 full-time employees operated the two programs in fiscal year 1992, compared to a projected 3,756 in fiscal year 1993. The increase in staffing is directly related to the consolidation of other agency vehicles into the Interagency Fleet Management System.

The Supply Operations Program is a national supply system under which Federal agencies place orders for supplies and services directly with FSS. FSS fills the orders and charges client agencies prices sufficient to recover the commodity cost plus all appropriate costs related to providing the item, including anticipated increases in inventory replacement costs due to inflation.

FSS operates distribution facilities through which commercial-type commodities are received, stored, and issued to Federal agencies. The FSS Stock Program, which includes Stores, Regular and Direct Delivery, contains a wide array of items from office supplies to tools. Buying in large quantities achieves substantial savings, while warehousing and distribution through a nationwide system provides responsive, cost effective service to client agencies.

The Direct Delivery Program includes items which are normally stocked but are shipped directly to the customer from vendors when the quantity of the item requisitioned is sufficiently large, or is otherwise not cost advantageous, to ship directly from the depot.



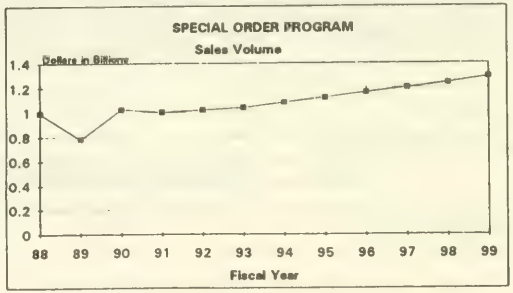
In fiscal year 1992, the Stock Program generated $1.13 billion in sales volume. Due to the projected reduction in Department of Defense programs, a 5% decline in sales volume is forecasted in fiscal year 1993. However, a steady volume of business within the civilian customer base is projected. Intensive marketing efforts are underway to capture a greater portion of civilian agencies supply and service expenditures.

I. MISSION AND RESOURCES (Continued)

GENERAL SUPPLY FUND, FEDERAL SUPPLY SERVICE

These efforts to increase market share include optional use of the U.S. Government credit card for small volume purchase of common-use office supplies; implementation of touch tone telephone ordering system for Post Office customers; and negotiation with individual agencies to improve ease of ordering from GSA. The ability to be sensitive and responsive to clients' needs for adaptive, easy to use ordering methods and delivery modes is critical.

The Special Order Program includes commodities which are not commonly stocked in depots; thus, the commodities are ordered from and shipped directly from the vendor to the ordering agencies. A large portion of this program's volume is based upon the procurement of automotive vehicles.



In fiscal year 1992, the Special Order Program generated $1.02 billion in sales volume. Projections for fiscal year 1993 and beyond are forecasted conservatively. Anticipated increases relate to:

- improved support for items previously covered by the Single Award Schedule Program
- projected growth for specific programs such as cost-per-copy
- vehicle purchases

Other Supply Operations activities include Export Operations, Miscellaneous Reimbursable Operations, Furniture Reclamation, Fuel Yard Operations and other miscellaneous activities. In fiscal year 1992, these activities generated $26.0 in sales volume, compared to a projected $24.2 in fiscal year 1993.

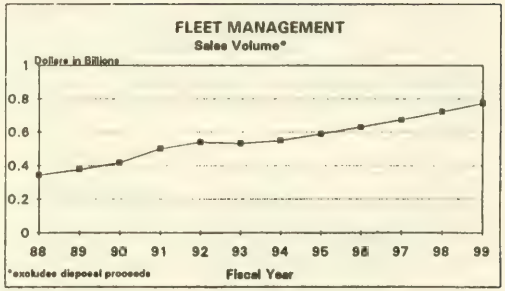
I. MISSION AND RESOURCES (Continued)

GENERAL SUPPLY FUND, FEDERAL SUPPLY SERVICE

The Fleet Management Program provides agencies with an economical commercial fleet management system comprised of 134,000 vehicles. Client agencies are charged rates, comprised of both fixed and per mile components, to recover all costs associated with this program, including anticipated increases in the replacement of vehicles.

The FSS managed vehicle fleet has proven itself an economical and attractive service for Federal agencies. Its growth in recent years stems from:

- A low cost per mile reflecting a full service support program at extremely competitive prices.
- A replacement cycle for vehicles which keeps the fleet up-to-date and results in excellent cost recovery when the vehicles are sold at public sale.
- An automated vehicle maintenance system that ensures preventive maintenance and warranty privileges.
- A close working relationship with clients at all organizational levels and geographic locations.



In fiscal year 1992, the Fleet Management Program generated $540.0 million in sales volume (excludes vehicle disposal proceeds).

II. INITIATIVES AND ISSUES

ISSUE: Reduction in the Postpayment Audits Program.

DISCUSSION: In 1986 the Congress encouraged GSA to use contract auditors to reduce the backlog of transportation vouchers and claims. Legislation was enacted to allow GSA to offset the cost of contracting and contract administration with the use of up to 40 percent of collections resulting from post-payment audits. Prior to the GAO decision regarding limited seating airline tickets (#B231659 dated September 10, 1990), expenditures for contractor payments and contract administration were well below the cap imposed by the legislation. However, since the GAO decision, GSA has revised its audit practice to such an extent that GSA collections will be insufficient to maintain the current rate of expenditures beyond fiscal year 1993. The Executive Branch appealed the GAO decision. The airlines have filed Alaska Airlines, et al. vs. Richard G. Austin in U. S. District Court. The Department of Justice is considering an appeal if the decision rendered is against the Government. FSS has taken action to reduce the cost of the postpayment audits program, essential given the reduced collections. Computer support costs are to be reduced by $4.1 million over a two-year period, since those costs now approach 50 percent of annual expenditures.

ACTION REQUIRED: Based upon the success of the preaward audit program, we are considering legislative changes to this program. The technology now exists to audit transportation bills prior to payment as GSA has shown with its Prepayment Audit contracts. In order to facilitate the movement of Government agencies from a postpayment environment, a legislative package has been prepared to change the applicable laws by directing agencies to perform or have performed verification for correctness of transportation charges. Over the next several years GSA will continue to reduce its postpayment audit activities. GSA will continue oversight of the audit of transportation bills and continue to adjudicate claims between carriers and agencies. This legislative package is currently in the internal agency clearance process.

II. INITIATIVES AND ISSUES (Continued)

ISSUE: Proposed Change to the Property Act to Increase Customer Base.

DISCUSSION: The Federal Property and Administrative Services Act of 1949, as amended, needs to be further amended at 40 U.S.C. 481(b) to include additional activities to receive the services specified in 40 U.S.C. 481(a). Such activities to be included are commissions, boards, and councils established by an act of Congress, and other organizations sponsored by a Federal agency when benefits accrue to the Federal Government and the sponsoring agency so approves. The rationale is that the inclusion of such activities in 40 U.S.C. 481(b) will provide the necessary statutory authority for GSA to make its sources of supply and services available to those activities without the need to conduct a specific legal review each time one such activity submits to GSA a request to use its sources of supply and services. There will be no additional workload imposed on any GSA organization as a result of this proposal.

ACTION REQUIRED: In view of the preceding, it is proposed that 40 U.S.C. 481(b) be amended as follows:

(b) The Administrator shall as far as practicable provide any of the services specified in subsection (a) of this section to any other Federal agency, mixed ownership corporation (as defined in the Government Corporation Control Act [chapter 91 of Title 31, United States Code]), commissions, boards, and councils as may be established by Congress from time-to-time and whose officials are covered by OPM/Civil Service regulations or whose funding is provided by appropriations, other organizations sponsored by a Federal agency, or the District of Columbia, upon its request.

(The underscored text is the recommended addition to the Property Act.)

II. INITIATIVES AND ISSUES (Continued)

ISSUE: Innovative Procurement Practices - Parallel Contracting

DISCUSSION: Parallel contracting provides for the award of two separate requirements type contracts for the same item(s). The first low bidder, called the "primary" contractor, is awarded the higher percentage (60%). The second low bidder, called the "secondary" contractor is awarded the lower percentage (40%). If either contractor defaults, the other contractor must assume responsibility for fulfilling all remaining Government requirements.

Parallel contracting is designed to ensure contract coverage for high demand or critically needed items where a contractor's failure or inability to perform would have a negative impact on the Government's ability to accomplish its mission. Historically, some of the products for which FSS has experienced problems maintaining adequate supply support include: scissors, plastic bags, steel banding, fibrous cord, staples and paints.

GSA attempted to implement parallel contracting in 1987. However, GAO sustained a protest filed by the low bidder who asserted they were entitled to the entire requirement. As a result of the GAO decision, GSA has pursued legislation that would allow parallel contracting.

ACTION REQUIRED: Since current statutory authority and resulting procurement methods are not always adequate to permit the acquisition of replacement contractor in sufficient time to alleviate the adverse impact of a lapse in coverage, proposed legislation has been developed. The proposed legislation would authorize an executive agency to procure supplies and services using competitive procedures, except that the agency could award more than one contract to different bidders for the same requirement. Language that would authorize the award of parallel contracts was introduced last year by the Committee on Government Operations of the House of Representatives in bill H.R. 3161, Federal Property and Administrative Services Authorization Act of 1991. This bill will be under consideration during the spring session of the 102nd Congress.

THURSDAY, FEBRUARY 18, 1993.

FEDERAL PROPERTY RESOURCES SERVICE

WITNESSES

EARL E. JONES, COMMISSIONER

JOHN NEALE, ASSISTANT COMMISSIONER, REAL ESTATE POLICY AND SALES

MARVIN L. STEFFEN, CONTROLLER

JAMES KEARNS, DIRECTOR, OFFICE OF SYSTEMS AND INFORMATION MANAGEMENT

INTRODUCTION

Mr. VISCLOSKY [presiding]. We will hear from the Federal Property Resources Service, please.

Mr. JONES. Mr. Chairman, Members of the subcommittee, I am pleased to be here today to discuss with you the Federal Property Resources Service program for the utilization and disposal of Federal real property.

First I would like to introduce Mr. John Neale, our Assistant Commissioner for the Office of Real Estate Policy and Sales, Mr. James Kearns, our Director for the Office of Systems and Information Management, and Mr. Marvin Steffen, our Controller. I would like to submit my formal statement for the record and briefly summarize.

Mr. VISCLOSKY. That will be fine.

SUMMARY STATEMENT OF MR. JONES

Mr. JONES. We have provided you briefing charts. I will discuss them. There are only about ten.

Mr. VISCLOSKY. Without objection.

Mr. JONES. Thank you. First as background, the Federal Government owns a vast amount of real estate, very valuable real estate. It falls in three categories. There are approximately 26 million acres of acquired lands. By acquired lands, I mean lands acquired for specific mission purposes such as military installations, Federal office buildings, warehouses. These lands are subject to the provisions of the Federal Property Act administered by the General Services Administration. There are about 600 million acres of public lands. They are administered by the Department of Interior and Department of Agriculture, principally for national forests and national parks.

We do not have a number on how many properties there are in the last category, but they are worth billions. They are seized, forfeited and foreclosed property, which are acquired by RTC, HUD, U.S. Marshals, and Treasury, as a result of illegal drug activities, failed savings and loans, delinquent taxes, and bankruptcies.

I would like to identify a major problem. There is no single source of information in the government on how much property the Federal Government owns, what it is worth, how much is being acquired, the cost to carry it or the cost to dispose of it. That information is highly fragmented among agencies that have independent responsibility. That creates an opportunity and a challenge, we think, from a government-wide real property asset management perspective to make major reforms and changes in how we are presently managing these programs.

With regard to FPRS, we have five primary responsibilities. They apply to acquired lands only. We are responsible for government-wide policies and regulations. We work very closely with agencies to identify properties that are underutilized, unutilized or not being put to optimum use so that those properties can either be disposed of or the agencies can make management improvements.

The heart of our program is that we are directly responsible for arranging the transfer of property from one Federal agency to another and also the disposing of surplus property. We dispose of surplus property by exchange, donation, lease and sale.

We also provide contractual services to agencies with independent disposal authority in the context of administrative, technical and disposal services. We maintain automated systems of management and control with particular focus on our inventory of disposal property. There are many benefits derived from our program.

When we dispose of property, jobs are created, tax revenues are generated, and we also support social programs such as the homeless. We provide health facilities, educational facilities, and historic preservation is addressed. A wide range of public benefits evolves from this program. Our authority is set forth in Sections 202, 203 and 204 of the Federal Property Act as supplemented and emphasized by Executive Order 12512 of 1985, which gives focus to the importance of asset management, as does our Federal property management regulations.

I might point out, and this again might be an issue that we have to look at, there are approximately 30 other laws that apply to the management and disposition of real property as administered by GSA. We constantly review those laws to try to remove redundancy and tailor and streamline the process. We must be fully cognizant of the laws to effectively execute our program responsibilities. Some of the laws include the Environmental Protection Act, Comprehensive Environmental Response, Compensation and Liability Act, Floodplains, Wetlands, Historic Preservation.

With regard to our organization, we are a very small organization. We operate with a grand total of 160 FTEs nationwide and our operating budget is $13.9 million in fiscal year 1993. We operate out of four regional offices.

I will address the savings that we have realized by tailoring and streamlining the organization just a little later. Our costs of operations are paid out of our sales receipts. We are beginning to encounter some problems in that regard.

Our disposal process, on the surface appears to be rather simple. There are seven basic steps. When property is reported to us for disposal, first we determine whether or not there are any other Federal requirements. If there are Federal requirements, we ar-

range the transfer of the property, if justified, to the requesting agency.

If there are no Federal requirements, we determine the property surplus and we make it available to State and local government units and eligible nonprofit institutions for a wide variety of public purposes. If there are no State and local government requirements for the property, then we offer it for sale on a competitive basis. I might say, associated with those seven steps are perhaps 100 related actions or more that you must be cognizant of when you are disposing of Federal property.

We have five significant programs. One program is our reimbursable sales and services program. We assist agencies that have independent authority to dispose of property, technically, administratively and in their context of disposals on a cost reimbursable basis.

We are anticipating that we will be reimbursed somewhere in the neighborhood of $2.9 million for the services that we are providing those agencies this year. Since 1982, we have conducted approximately 3,500 surveys to identify unneeded property. This has resulted in approximately 28,000 acres worth $490 million being reported excess for disposal.

This year we have targeted 280 properties for survey. The survey program also influences the military base closure initiative. A lot of the properties that have been identified under the base closure initiative for disposal, were identified by GSA under its survey program years ago, but we did not have the clout to have them released.

Also, as a result of our survey program agencies are much more cognizant of the value and the importance of their real estate holdings. Over the past several years, there has been a proliferation of special legislation by agencies to dispose of their own properties and when they sell property, and to keep the sales receipts for their own programmatic purposes.

Those are issues that we think need to be addressed. With regard to the military base closures, the Department of Defense has authority delegated from GSA to dispose of those properties, but GSA has the responsibility for oversighting Defense's actions inasmuch as the properties are being disposed of pursuant to the provisions of the Federal Property Act.

Under Base Closures I and II, approximately 120 properties were identified for disposal. We are working very, very closely, particularly with the Departments of the Air Force and the Navy, with regard to their activities and planning for the disposal of those properties.

With regard to Base Closure III, which is in progress right now, we are working very closely with the Base Closure Commission, as we have in the past, and particularly in areas of evaluation and environmental analyses. During the last base closure initiative, my assistant commissioner for real estate policy and sales testified before the Base Closure Commission. We have excellent rapport with the Commission.

We also manage a relocation program. With funds appropriated by Congress on a site-specific basis, we relocate agencies from costly, inefficient properties in prime locations to less costly properties while upgrading the quality of the space. The properties that are vacated are sold and the proceeds help reduce the national deficit.

When we enter into these types of transactions, the objective is to get as a minimum a two to one return on the investment. We think there are tremendous opportunities here if the agencies will take advantage and participate in this program to better manage the government's real estate assets.

Lastly, we work very closely with the Department of Housing and Urban Development and Health and Human Services in the administration of the Stewart B. McKinney Homeless Assistance Act. Our authority is set forth in Title V of that act to promote the utilization of surplus property for homeless purposes. We assist HUD and HHS in developing policies and procedures. Since inception of McKinney, properties in our inventory valued at approximately $57 million have been established as homeless sites.

One of the problems with regard to our inventory is that most of the properties we have are just not in places of homeless demand. Again, since inception of this program in 1987, we have only received about 50 applications for homeless purposes. The applications are submitted to HHS and then, if approved, HHS refers them to us. All properties that are reported to GSA, with few exceptions, are referred to HUD for a determination as to suitability for homeless purposes.

If those properties are determined to be suitable for homeless purposes, they are made available by GSA on a priority of consideration basis. Since the program commenced, we have only rejected one application and that was for a property over in Arlington, Virginia, called Barracks K, a significant and controversial property with significant press coverage.

Now, with regard to some of our significant accomplishments from 1982 through 1992, we tailored and streamlined our organization. In the central office we reduced from six offices to three offices. In the regions we reduced from 11 to 4 offices. Our resource reductions approached approximately 30 percent and we realized savings in excess of $5 million.

I must point out we have also reviewed our legislation to see how we could facilitate greater efficiency and effectiveness in the program. For example, until a few years or so ago, every negotiated sale that we entered into with State and local governments with an appraised fair market value of $1,000 had to be submitted to the House Government Operations Committee and Senate Governmental Affairs Committee for review.

We worked to change that law so that the threshold is now $100,000. We also made some changes with regard to obtaining antitrust clearings from the Department of Justice. Originally when we sold property competitively to private firms or individuals, we had to send it to Justice for antitrust clearance if the original acquisition cost to the government was $1 million.

We changed the law so that now it is based on $3 million of fair market value, which cuts out a lot of processing and procedures

and referrals for review. So we are continuing to review our laws in this regard. In 1985, believe it or not, we were still operating this program manually and we converted from a manual to a computerized system of management and control. Since 1982, we have disposed of approximately $1.6 billion worth of property, including $963 million in sales.

Our disposal target this year is $131 million including approximately $30 million in sales receipts. I might point out that one of the reasons why our sales receipts are going down is that pursuant to the Military Base Closure Acts, when the Department of Defense sells property with or without our assistance, the sales receipts are retained by the Department of Defense. So consequently that means—since the Department of Defense constitutes approximately 85 percent of our potential disposal workload, receipts would decline.

Also, when the Veterans Administration sells its properties, when those types of properties are disposed of, the sales receipts go back to the Veterans Administration, so that leaves us a very small pool from which to draw to generate sales receipts today. That does not mean that our activity or the size of the program is being reduced or diminished. It just means it is taking a different phase or focus.

Lastly, we have expanded opportunities for women, minority, and the handicapped in our program. Approximately 53 percent of our staff are women and approximately 28 to 29 percent are minorities nationwide. Now, from a government-wide perspective, we have identified what we believe are major problems with regard to how the Federal Government manages its real estate assets.

I might say that FPRS has had these issues on the table since 1988 or 1989 but unfortunately, we have not been able to bring about any major reform. I think there is a unique opportunity now, if everyone is focused and realizes the importance of the Federal Government managing its real estate assets better, to make major changes through strong leadership and commitment.

There are at least 17 agencies in the Federal Government doing the same thing GSA is doing, particularly with regard to the disposal of real estate. We are one of the 17 agencies. Each agency has separate staffs, funds, and policies and procedures. There is minimum coordination. We are, in many instances, selling property in competition with ourselves.

Consequently, we may not be generating the highest return to the Federal Government. Obviously there is a need for closer coordination, communication and cooperation in this area. Our automated inventory data systems are fragmented and uncoordinated. The information tends to be somewhat incomplete. It is difficult to quantify how much property we own, what it is worth, what it is costing to keep, and what the cost of disposal is.

From a government-wide perspective we may not be effectively organized to achieve the objective. Maybe we should review organization government-wide not just at GSA. If our observations, as have been articulated in many instances by GAO, GSA, and others are correct, we may be wasting some money and resources.

We have made a number of recommendations. These recommendations have not yet been brought from our perspective to the Clin-

ton administration because we don't have our final leadership on board, but I did—during transition, I did comment on these points. With the exception of President Bush, every President since 1970 has issued executive orders focusing on improving how the Federal Government manages its real estate assets. We suggest that the Clinton administration should issue such an executive order with teeth in it and we have drafted an executive order which we are now processing within GSA. Whether or not it will be accepted, we don't know, but at least we are pointing ourselves in that direction.

An executive order would give prestige and focus to this issue. With regard to Federal real property there is inherently a reluctance to focus on the real estate. We focus on the programs and the cost of the programs, but not real estate.

These two costs are not mutually exclusive. And that if you have a lot of real estate, you may have—there may be some correlation between the real estate that you own and manage with the cost of your programs that may have some corollary with the budget deficit. So we are proposing the executive order.

We also recognize that no one agency can singularly dictate to another agency with regard to how they should manage their real estate assets. Consequently, we are proposing an interagency council on real estate asset management that would be comprised of executive landholding agencies with representatives from OMB and possibly the White House for the purpose of formulating and reviewing policy, ascertaining how well we are doing across the board from a government perspective, and by having the agencies themselves participate in such a council, they would have a stake in making improvements. So we are going to recommend that.

We also think that there should be a central real property manager to bring direction across the board with regard to the real estate utilization and disposal, to lead, coordinate, analyze and make recommendations for improvement. We think that there is a need to bring greater discipline into this particular program by requiring reports to someone as to how well we are doing, maybe not on a fragmented basis, but on a comprehensive basis, such as I am doing today and you will see how well we are doing and the problems we have encountered, but maybe bringing it together so that we can see what is going on from a government-wide perspective. Perhaps there could be annual reports to both OMB and to Congress covering all of the government's real estate, and these are—as I said, these are our recommendations, things we are looking at.

There might be an opportunity to create an umbrella organization where this could be brought together as a program. These are my thoughts. These are our concerns. We think they are a unique opportunity for change. We would surely like to be a part of it.

[The statement follows:]

OPENING STATEMENT

Earl E. Jones

Commissioner
Federal Property Resources Service (FPRS)
General Services Administration (GSA)

Hearings Before the
House Subcommittee on the Treasury, Postal Service
and General Government Appropriations
of the
House Committee on Appropriations

February 18, 1993

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss with you the Federal Property Resources Service (FPRS) program for the utilization and disposal of Federal real property. First, I would like to introduce Mr. John Neale, our Assistant Commissioner for the Office of Real Estate Policy and Sales, Mr. James Kearns, our Director for the Office of Systems and Information Management and Mr. Marvin Steffen, our Controller. I will now briefly summarize Federal real property ownership, significant asset management issues, the FPRS mission, the programmatic refocus, available resources and significant program initiatives in fiscal year 1993.

Background

The Federal Government owns vast amounts of extremely valuable real estate that falls into three broad categories. First, approximately 26 million acres are lands acquired for specific

mission purposes such as military installations, offices and warehouses. Acquired land is subject to the provisions of the Federal Property and Administrative Services Act of 1949, as amended (Property Act) administered by GSA.

Second, some 600 million acres are public lands administered principally by the Department of Agriculture and the Department of the Interior for national forests and parks, respectively. The third category of Federal real estate includes property, worth billions of dollars, seized and forfeited as a result of bankruptcies, delinquent taxes, illegal drug activities and foreclosures. Agencies such as the Resolution Trust Corporation, the Department of Treasury, the U.S. Marshals Service, and the Department of Housing and Urban Development have independent authority to acquire, manage, and dispose of these properties.

Governmentwide Issues

As reflected in numerous studies and reports including those developed by the General Accounting Office, the Department of Treasury, and GSA, significant change is needed Governmentwide in the acquisition, management and disposition of real property assets. Too little attention is paid to developing clear-cut policies and cohesive strategies or to the sharing of innovations and creative solutions.

For example, more than seventeen (17) Federal agencies have real

property management and disposition authority. Their actions are impacted by more than sixty (60) laws, programs and Executive Orders. There is no central point of responsibility in the Federal Government for the development, coordination and implementation of real property policy. Additionally, there is no comprehensive system of accountability to measure how well agencies are performing their real property management functions.

There are numerous deficiencies in the Worldwide Inventory Data Base of properties owned and leased by the Federal Government which limit its use as a management tool. Further, existing automated inventory information management systems are highly fragmented and uncoordinated. Information concerning property values, quantity estimates and cost of disposal is sketchy or nonexistent. The GSA inventory data base does not include property acquired by seizure, forfeiture, and foreclosure.

The Property Act has served the Government well as the authority for the effective and efficient management and disposition of Federal real estate. However, over the past few years, there has been a proliferation of special legislation which enables agencies to dispose of their own properties and retain the sales receipts for programmatic purposes. These transactions approximate $100 million to $300 million annually, are generally not subject to thorough scrutiny of the Congressional appropriation review process and have resulted in declining GSA

sales receipts. To reverse this trend, FPRS is reviewing existing legislative authority toward providing greater incentives for Executive landholding agencies to fully comply with provisions of the Property Act when disposing of unneeded real property.

These are but a few examples of inefficiencies in how the Federal Government manages and disposes of its extremely valuable real estate assets. In a spirit of teamwork and cooperation, GSA/FPRS seeks to form a partnership with other Executive landholding agencies in bringing about significant policy and procedural changes and improvements. The potential benefits and savings to the Government and the nation's taxpayers are substantial.

FPRS Mission

FPRS is responsible for promoting the optimum utilization and disposal of Federal real property in the most timely, economical, and efficient manner. Primary responsibilities include the development of Governmentwide policies and regulations; the identification of properties not utilized, underutilized or not being put to optimum use; promoting maximum utilization of real property by Federal agencies and minimizing new procurements by arranging transfers of available property from one Federal agency to another; and the disposal of unneeded property by sale, lease, exchange, and donation for public purposes. Donations include conveyances for homeless, education, health, parks, historic

monuments, airports, wildlife and other public uses.

Programmatic Refocus

Although FPRS has enjoyed many successes since its inception in 1978, in order to remain a relevant and viable organization capable of meeting the unprecedented challenges and opportunities of the 1990's, FPRS is in the process of refocusing its program to give greater emphasis to real property asset management. While not discarding its historical focus on the utilization and disposal of Federal real property, FPRS proposes to broaden its perspective by adapting a life cycle approach to real property asset management with greater emphasis on planning, policy and oversight, contractual services, and inventory management.

Resources

For fiscal year 1993, appropriations for FPRS Operating Expenses are $13,933,000. Personnel ceiling is set at 141 full time equivalent work years (FTE) plus 19 FTE designated to be funded on a reimbursable basis for services provided to agencies by FPRS under provision of the Economy Act (31 U.S. Code 1535a).

Pursuant to provisions of the Land and Water Conservation Act of 1965, the FPRS real property program is funded by sales receipts. Over the past few years a serious problem has developed in this regard because of legislation passed which authorizes the Department of Defense (DOD) and certain other agencies to retain

the proceeds from the sale of real estate. This has reduced the receipts available to fund the FPRS program.

Disposal Initiatives

During the past 10 years, FPRS has disposed of over $1.6 billion worth of property, including $985 million in sales receipts, $325 million in donations, and $316 million in transfers to other Federal agencies. FPRS has targeted disposals at $131 million for fiscal year 1993.

Reimbursable Sales

Upon request, FPRS markets, on a reimbursable basis, property for Federal agencies with independent disposal authority. Examples of such disposals are real property seized, forfeited, or foreclosed on by such agencies as the U.S. Marshals Service, the Department of Housing and Urban Development, and the Department of Treasury. Additionally, FPRS provides sales assistance to the Small Business Administration, the U.S. Postal Service and the U.S. Customs Service.

Survey Program

With increased emphasis being placed on the improvement of Governmentwide real property asset management, the Executive Order (E.O.) 12512 survey program has become a significantly more strategic part of the FPRS program. In fiscal year 1993, the OMB budget passback highlighted this program to identify properties

that are unutilized, underutilized or not being put to optimum use, as an excellent example of the kind of asset management policy and oversight activity that GSA should undertake.

Additionally, E.O. 12512 directs GSA to improve the oversight and guidance for real property management and set Government standards and procedures for reviewing real property holdings. Unfortunately, over the years, a perception has evolved that the survey program is primarily to identify unneeded real property for the purpose of disposition. However, many other tangible and intangible program benefits result from the program and contribute to improved asset management by executive landholding agencies. FPRS now has underway a thorough study of this program toward making major improvements that focus on asset management and performance measurement as well as property dispositions.

Military Base Closures

The Defense Authorization Amendments and Base Closure and Realignment Act of 1988 (Public Law 100-526) and the Defense Base Closure and Realignment Act of 1990 (Public Law 101-510) authorize the Department of Defense (DOD) under delegated authority from GSA, to dispose of unneeded military installations, so identified by the Base Closure Commission and approved by Congress, and to use the proceeds from sale for DOD programmatic purposes. Inasmuch as disposals are made pursuant to provisions of the Property Act, FPRS has a significant

oversight role in insuring compliance. Also, FPRS provides administrative, technical and disposal assistance to the Departments of the Air Force, Navy, and Army upon request on a cost reimbursable basis. FPRS views the Base Closure initiative as a critical component of its program responsibilities and expects DOD requests for support to increase substantially as this program continues to evolve.

Relocation Program

The relocation program is also designed to facilitate better management of the Government's real estate assets. With funds appropriated by Congress, it affords agencies an opportunity to relocate from costly, inefficient facilities in prime locations to less costly but higher quality space. Prior to fiscal year 1993, funds for the relocation program were made available before GSA had identified a relocation candidate. The fiscal year 1993 budget provides for continued funding only after a viable candidate has been selected and approved. Only those proposals of the highest merit and benefit to the Government will be pursued. While transitioning to the new policy, GSA did not request funds for this program in fiscal year 1993.

Homeless Initiative

FPRS has a significant role in executing the Stewart B. McKinney Homeless Assistance Act (McKinney Act), P.L. 100-77, as amended by P.L. 100-628 on November 7, 1988, and P.L. 101-645 on November

29, 1990. We work closely with the Department of Housing and Urban Development (HUD), the Department with lead responsibility for implementing the McKinney Act, and the Department of Health and Human Services (HHS), in promoting the use of suitable underutilized and unutilized Federal property for homeless purposes. Since enactment of the McKinney Act, properties valued at approximately $57 million have been established as homeless sites and an additional $2.8 million were returned by the homeless applicants. Also, to improve and expand services to the homeless, FPRS along with GSA's Federal Supply Service has implemented a program to make shelter facilities and the necessary personal property furnishings available as a package to approved homeless provider applicants. FPRS strongly supports the homeless program and will continue to assist HUD and HHS in developing policies and procedures to improve the efficiencies and effectiveness of the McKinney Act.

Conclusion

Mr. Chairman, the FPRS program continues to be consistent with our efforts and successes in improving real property asset management in the Federal Government. I thank you for the opportunity to make these remarks. I will be glad to answer any questions at this time.

General Services Administration

Federal Property Resources Service

Program Summary

Federally Owned Real Estate

Acquired Land	26 million acres
Public Land	600 million acres
Seized, Forfeited, Foreclosed Property	$ Billions

Primary Responsibilities

- Governmentwide Policies and Regulations
- E.O. 12512 Property Utilization Surveys
- Federal Utilizations and Disposals
- Contractual Services
- Information Resources Management

Basic Statutory Authority

The Federal Property and Administrative Services Act of 1949, as amended (40 U.S.C. 471 et. seq.)

Section 202: Governs the Transfer of Excess Real Property

Section 203: Governs the Disposal of Surplus Real Property

Section 204: Governs the Use and Disposition of Proceeds from Sale

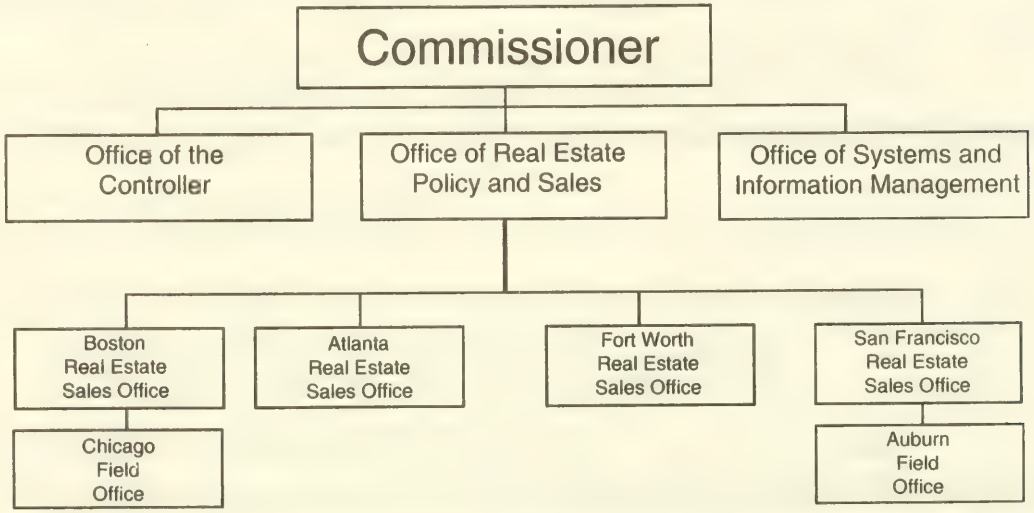
Executive Order 12512

Dated April 28, 1985, Emphasizes the Importance of Executive Agencies Effectively and Efficiently Managing Federal Government Assets.

Federal Property Management Regulations (FPMR) 101-47

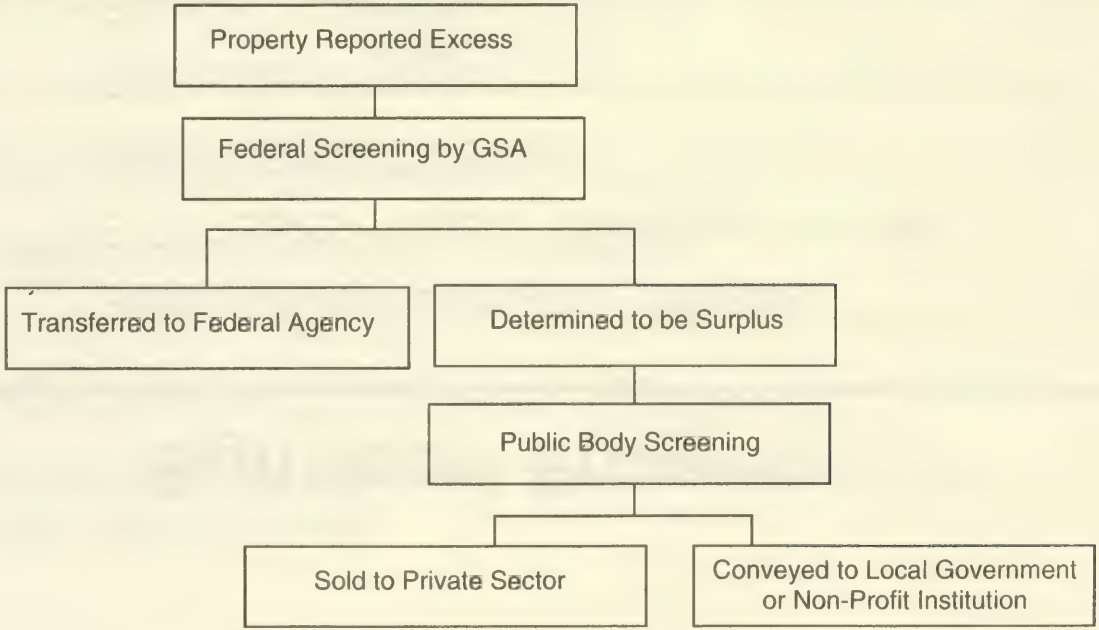
Implements Regulations for the Identification, Utilization and Disposal of Excess and Surplus Real Property.

Federal Property Resources Service


Commissioner
Office of the Controller
Office of Real Estate Policy and Sales
Office of Systems and Information Management
Boston Real Estate Sales Office
Chicago Field Office
Atlanta Real Estate Sales Office
Fort Worth Real Estate Sales Office
San Francisco Real Estate Sales Office
Auburn Field Office

FTE - 160
OE (Direct) - $13.9M

Disposal Process


Property Reported Excess
Federal Screening by GSA
Transferred to Federal Agency
Determined to be Surplus
Public Body Screening
Sold to Private Sector
Conveyed to Local Government or Non-Profit Institution

Significant Programs

- Reimbursable Sales and Services
- E.O. 12512 Property Utilization Surveys
- Military Base Closures
- Relocation Program
- Stewart B. McKinney Homeless Assistance Act

Significant Accomplishments
(1982-1992)

- Tailored and Streamlined Organization
- Refined Policies and Procedures
- Automated Information Management Systems
- Approximately $1.6 Billion In Disposals
- Expanded Opportunities For Women, Minorities and Handicapped.

Federal Asset Management Significant Problem Areas

- No Central Point of Responsibility
- No System of Accountability
- Worldwide Inventory Data Base
- Organization and Resources

Federal Asset Management Recommendations

- Issue New Presidential Executive Order
- Establish Interagency Council on Real Property Asset Management
- Establish a Central Real Property Manager
- Establish System of Accountability and Performance Measurement
- Undertake Legislative and Regulatory Reform
- Undertake Organization Reform

REAL PROPERTY SALES

Mr. VISCLOSKY. Mr. Jones, thank you very much. The major responsibility of the Federal Property Resources Service is to dispose of Federal real property. With the downturn in the real estate market, which you have alluded to and the large number of RTC properties also on the market, what has been your success in selling governmental real property assets?

Mr. JONES. We have noticed a trend downward. In 1992, of the properties that we scheduled for sale, we were successful approximately 70 percent of the time, in 1991, approximately 73 percent of the time and in 1990, about 80 percent of the time. The results have been directly impacted by the turn down in the market, but also, as I have pointed out, in many instances the Federal Government competes with itself when we put property on the market for sale.

There is also the impact of the McKinney Homeless Act. It slows us down a bit for processing the procedure. We have run into a number of problems as it involves environmental issues. I think the Department of Defense is an expert in that area now, and so those things all mitigate towards this.

Mr. VISCLOSKY. In terms of success, you are looking at a particular property with a particular price in mind, I would assume.

Mr. JONES. Yes, that is correct.

Mr. VISCLOSKY. If you don't receive that price, then that remains on your rolls?

Mr. JONES. Yes, we will not accept any offer for a property. We have some policy that says if we get approximately—on a competitive bid sale, if we get approximately 90 percent of the value in a competitive bid sale but in some instances we will accept as low as 75 percent depending on market conditions.

RTC PROPERTIES

Mr. VISCLOSKY. You stated a Memorandum of Understanding between yourselves and the RTC was in the works. Could you tell the Subcommittee what arrangements you have made with the RTC to assist in the disposal of their properties?

Mr. JONES. Mr. Chairman, the previous leadership strongly endorsed our pursuing this type of work initially.

Mr. VISCLOSKY. Leadership?

Mr. JONES. The previous administrator and deputy, but last year the position was reversed. We were prevented from pursuing that work. There was an indication that the leadership wanted us to focus more on policy and oversight rather than the disposition of real estate. Some of those recommendations have been seen in GAO reports, so we began to point ourselves away somewhat from the disposal of real estate last year, particularly the reimbursable work, although I might say that probably 50 percent of our inventory today are reimbursable types of disposal, but we had to change our direction.

Mr. VISCLOSKY. You think that change in direction was appropriate?

Mr. JONES. We are real estate people. I enjoy selling real estate. I think that it is absolutely critical to GSA's program that we retain

a cadre of people who are knowledgeable in this area, and the way you remain knowledgeable is by performing some of those functions and activities, so I think we should always have that type of activity. We don't have to be the Caldwell Bankers of the world, but we should have—we are pretty good.

When selling real estate for other agencies, the fees in the private sector would range somewhere from 6 to 10 percent of the fair market value. Since we are not profit oriented, we would sell the same real estate for 1 to 3 percent of the fair market value.

Mr. VISCLOSKY. So a memorandum is not in the works at this point?

Mr. JONES. At this point it isn't. It may very well be that RTC is getting close to the end. I do not know whether we will be able to rejuvenate our initiative. We will hold discussions with RTC to see whether or not they would still like to use our services. We established excellent rapport with RTC during an approximate year of negotiations on the MOU. Really we had an MOU in place but we just weren't able to proceed with. It never got approved.

Mr. VISCLOSKY. Are you indicating that you don't believe this kind of Memorandum of Understanding is warranted?

Mr. JONES. I will not know until we hold further discussions with RTC.

Mr. VISCLOSKY. Mr. Lightfoot.

PROPERTY DISPOSAL

Mr. LIGHTFOOT. Thank you, Peter. Mr. Jones, thank you for coming. I have a couple of questions and Mr. Early has been in that chair for almost three hours. Not a pained expression on his face yet, however, we want to avoid that. As you are going through disposing of some of this property and there is a big interest in—at least in my part of the country in historic preservation and this sort of thing, do you have people on staff who are tuned into this so-called historic value and if so, are they making sure that these properties aren't damaged or that the historic value in them is being preserved? Is that part of your thinking rationale?

Mr. JONES. Yes. That is a part of our policy. I will give you an example of a case of property we disposed of. It is becoming controversial right now. We sold the Custom House in Boston, Massachusetts, that is the first high rise in Boston, to the redevelopment authority by negotiated sale. As a part of the conditions, they have to maintain the historic integrity of that property. There is a close working relationship with the landmark group and the historic advisory council.

RECOMMENDATIONS ON NEEDED CHANGES

Mr. LIGHTFOOT. And the final question, and I would suggest you take this one home and work on it, your statement that there is not one single source for a lot of things, knowing where all the real estate is, the values, the litany that you gave us, you are the expert in this area, you work with it every day. I would like to see your opinion, if you can sit down with a Big Chief tab and a lead pencil, and if you could design what would be the ideal way to bring this together to make it work. What are your recommendations and

where do you see the pitfalls and the pluses in it, because I think there is a lot of thinking about redoing the way we do business, and nobody better to go to than people that are in it every day and work in it and understand where the problems are and see where there could be some deficiencies and I would just like to have you at your leisure give us some ideas.

If you could just design this thing, how you would do it because you are there, you know what is going on. We certainly don't. To me, that is one of the things, talking to Mr. Smith earlier, that Chairman Hoyer has gone into a little different mode here having these kinds of hearings, but the value that I sense already is that instead of just trying to crunch your number, we get a little understanding of what you folks are dealing with and it can help us make better decisions on this end.

Anyway, if you could do that, I would appreciate it and we are not going to hold your feet to the fire or anything like that, but it might be very constructive to see someone from the inside who sees how we could make it this more efficient, make it work better.

Mr. JONES. We would be happy to do that.

Mr. LIGHTFOOT. It would be easier for you folks to do your job as well and if it needs legislation, I would appreciate you pointing that out too, or removing some. That is more difficult obviously. And thank you very much.

Mr. JONES. Thank you.

Mr. VISCLOSKY. Regarding some of the suggestions you have made as far as recommendations, you mentioned undertaking legislative and regulatory reform and you talked about establishing some systems of accountability and performance. My sense is some of these things might have to be done through the statutory process, either by omission or commission. Others potentially are just a change in the way we do business.

You talk about the deficiencies in the worldwide inventory database. Are there some of these, notwithstanding any new executive order or new legislation, that we ought to be focusing on in terms of our resources this year to improve these databases so they are of value?

Mr. JONES. Yes. For example, with regard to our inventory databases, we have undertaken an initiative to put together an inventory of all the property that is being sold by the Federal Government. We started that initiative last year another step if you will in bringing about some greater discipline and coordinating the program.

The responsibility for developing the government-wide inventory of all of the acquired lands owned and leased by the Federal Government is in another organization at GSA. We propose that because of the nature and scope of our program, that that organization be made a part of FPRS.

Mr. VISCLOSKY. Which organization is that?

Mr. JONES. It is in the Public Buildings Service right now, but we are preparing an organizational refinement that would incorporate this responsibility within FPRS.

Some attention has already been given to improving the inventory. What we are saying is the inventory should not be just of ac-

quired property, it should be of all property. That includes seized, booked and everything. So we will be working in this regard.

We also are preparing our legislative agenda for the 103rd Congress now which contemplates significant improvements and mayble get GSA, not in an offensive way, but get GSA some additional clout with regard to asset management. Maybe, if anything, it will clarify some of our responsibilities and our authorities that are already there.

We are working on those types of agendas and a number of other proposals. I have no way of knowing whether or not they will be received and accepted, but we are surely working on them. We have a lot on the plate right now for a small organization. We are meeting today.

Mr. VISCLOSKY I might just say that regarding our subcommittee's consideration of the dollars we are talking about for the next fiscal year, I think of special interest to us this spring will be some of the changes that can be made administratively without having to pursue that legislative agenda.

I am not discounting the other things that have to be done, but in terms of some immediacy, are there things we can make adjustments in this year from a fiscal standpoint and make the system more effective and efficient? I think the Chairman and Members of the subcommittee would appreciate having that in terms of the inner process issue.

With that, we would have additional questions for the record that we would ask be responded to. Mr. Lightfoot, do you have anything else?

Mr. LIGHTFOOT. We just want to help you do the best job you can. I think we can get there by working together on it. This is a good start.

Mr. JONES. I appreciate that. Thank you.

Mr. VISCLOSKY. Gentlemen, thank you very much. We have some questions for the record and would appreciate your prompt responses.

[Additional questions submitted for the record by the Committee and the answers thereto follow:]

PROPERTY DISPOSAL

Question. In 1990, the FPRS offered its services to a number of domestic agencies. What are the arrangements for reimbursement from those agencies for the work which you do for them?

Answer. Upon request, FPRS provides administrative, technical, and disposal assistance to HUD, Treasury and U.S. Marshals under Memoranda of Understanding (MOU), pursuant to the provisions of the Economy Act on a cost reimbursable basis. We also have MOU's with Air Force and Navy to assist them in military base closures.

IDENTIFICATION AND MANAGEMENT OF EXCESS PROPERTY

Question. Federal agencies have reported very little excess property to GSA which of course, affects GSA's cash receipts. What has GSA done to increase Government-wide management and oversight of Federal excess property?

Answer. In reality through its property utilization surveys program, in place since 1970, GSA has influenced the excessing of Federal real property worth over $100 million, including many of the properties identified under the military base closure initiative. As a result of this program, Executive landholding agencies are more cognizant of the value of their real estate holdings. Over recent years they have successfully sought special legislation more and more to dispose of their own properties,

rather than report them to GSA and they retain the sales receipts for programmatic purposes.

In the long run, GSA views this practice as costly and inefficient. GSA is proposing legislative, policy, and management reforms, now under internal agency consideration, that contemplate greater GSA leadership, responsibility and authority in the areas of Governmentwide management and oversight of Federal excess property. Upon completion of its internal reviews and approvals, GSA will be in a position to fully disclose the nature and scope of the proposed actions.

Question. A complaint from Federal agencies is that there is no incentive to declare property excess because they do not share in the cash receipts from the sale. What is your response to this concern and what can be done to address this issue?

Answer. FPRS proposed annually for the past several years that 50% of the sales proceeds be returned to agencies as an incentive for improved management. Our proposal were not enacted in the 102nd Congress. We are now concerned in view of the budget deficit whether a financial incentive is a good idea.

Question. How are you encouraging other government agencies to identify and report excess and surplus properties? Do you believe additional financial incentives or penalties are needed?

Answer. Under Executive Order 12512 of April 29, 1985, and Federal Property Management Regulation 101-47.8, GSA provides Governmentwide policy, oversight and guidance for Federal real property management. We issue standards, procedures, and guidelines for the conduct of surveys of real property holdings of executive agencies to identify properties which are not utilized, are underutilized, or are not being put to optimum use. GSA has been conducting asset utilization surveys of Federal properties since 1970.

We perform oversight reviews of Federal real property utilization by performing surveys and by reviewing surveys conducted by individuals agencies. Our mission is to improve the management of property assets Governmentwide and to identify property for further use by other agencies or for disposition. We initiated an oversight review of agencies real property programs in the mid 1980's through an Annual Data Call in coordination with OMB.

A relocation program was developed as a major initiative and incentive to improve Federal asset management. The program offers incentives to agencies to relocate facilities for the purpose of declaring underutilized properties as excess. Under the program, agencies can acquire new facilities with funds provided when the relocation is economically beneficial to the Government.

GSA is working on legislation to bring greater discipline and accountability in the program. As a minimum, if we knew the amount of property owned, acquired, disposed of, and the cost to hold annually be each agency, it would be a start. Also, if program reductions were tied to space reductions better results might be achieved.

As a last resort a program similar to the Base Closure Program might be initiated.

Question. Can GSA identify any buildings in its own inventory that are not cost effective to rehabilitate, or in other ways have a negative return on further investment?

Answer. In order for GSA/PBS to respond to the annual FPRS Data Call, PBS annually selects buildings that are potentially excess to their needs. The buildings selected are reported as candidates for Retention/Disposal, known as R/D Studies. R/D Studies are conducted for partially occupied and/or unprofitable buildings to determine the costs and benefits associated with retaining or excessing a building. The study compares the cost of bringing a building up to current standards compared to leasing new space.

PBS employs three other asset management studies to identify unprofitable buildings. The first involves a community planning study (40 communities nationwide) which periodically reviews the inventory to determine future space requirements. The second is an independent regional view of the inventory for vacant space and for buildings. A Building Engineering Report (BER) is prepared for every owned building in the inventory on a five year cycle. For all studies, if a building is identified to be a liability, it is considered for an R/D Study.

PBS also conducts Potential Income Enhancement (PIE) Studies to discover which R/D factors are contributing to the unacceptable profitability/vacancy rate of a building. PIE Studies focus on proposing steps to improve the factors affecting profit/vacancy.

Sales Receipts

Question. In 1992 you projected $225 million in sales from real property assets. What are you anticipating as your total sales in 1993?

Answer. The OMB approved sales receipts target is $30 million and dispositions target of $131 million. These targets again reflect program refocus from operations to policy and oversight as well as reductions because of the Base Closure Initiative and special legislation.

Question. What does GSA do with the sales receipts—do a portion of the receipts go into the Land and Water Conservation Fund?

Answer. Ordinarily, receipts from the sale of property by GSA are deposited into the Land and Water Conservation Fund administered by Interior. However, because of special legislation, most sales receipts are returned to agencies releasing property. Agencies use these receipts for programmatic purposes.

Question. What has been GSA's recent experience with the availability of receipts for the Land and Water Conservation Fund? What is the cause of decreasing deposits into this fund?

Answer. Department of Defense (DOD) properties constitute, under normal circumstances, approximately 85% of GSA's potential disposal workload. Since DOD is authorized to retain sales receipts for properties disposed of under the Base Closure Acts and non-base closure properties disposed of under normal procedures, GSA is experiencing great difficulty in generating receipts for deposit into the Fund.

Defense Property Disposal

Question. In what ways have you assisted the Department of Defense with the disposal of excess property?

Answer. GSA is responsible for oversighting the Base Closure Program to insure disposals are consistent with Federal Property Act requirements.

Under MOU's with Air Force and Navy we provide administrative, technical, and disposal assistance. Last year, we obtained 19 appraisals, conducted 10 Federal/public body screenings, completed 3 disposal transfer documents, disposed of 6 properties valued at $41.5 million, assisted in 2 leases valued at $97.5 million and participated in 51 technical assistance meetings. We also occasionally assist Army when they request our services.

Question. Are you reimbursed for your efforts? What was the level of reimbursements in 1992?

Answer. Yes, we are reimbursed for our efforts. Billings for services provided to Air Force, Navy and Army last year totalled $719,000 and are expected to reach upward of $1.6 million this year as base closure activities increase.

Homeless Assistance

Question. I am intrigued by the portion of your statement which addresses a new program to make shelter facilities and personal property furnishings available as a package to approved homeless provider applicants. Please tell us about your success with this program.

Answer. Pursuant to Title V of the Stewart B. McKinney Homeless Assistance Act as amended, GSA and HHS work closely with HUD, the lead agency, who is responsible for making surplus real and personal property available for homeless purposes.

Since inception of the program, homeless providers have applied for 50 properties of which 37 properties worth $56 million are in use, 9 properties were returned, 3 are pending, and 1 was rejected. Nine sites worth $6.8 million were established in fiscal year 1992. 17 Court Street in Boston is a representative example of real and personal property being combined.

Question. What are your responsibilities under the McKinney Homeless Assistance Act?

Answer. All surplus properties reported excess are submitted to HUD for homeless suitability. If suitable, they are made available on a priority of consideration basis.

We are responsible for promoting the accessibility of the program to homeless providers and working with HUD and HHS in developing policies and procedures for full implementation of the McKinney Act.

Disposal of Unused Federal Buildings

Question. When the Government owns buildings, the responsibility for disposing of unused or unneeded Federal buildings also falls on the Government. How does GSA identify unneeded buildings and then how does GSA dispose of these buildings?

Answer. Executive Order 12512 requires executive landholding departments and agencies to improve their Federal asset management and to establish property targets for the release of real property no longer needed to satisfy program mission requirements. To execute the Order, the Administrator of GSA issues an Annual Data Call requesting targets for disposal in the upcoming fiscal year.

Under the same Order, FPRS strives to ensure that Federal real estate assets are being put to optimum use by assisting Federal agencies in identifying excess property. The survey identifies property that is not utilized, underutilized, or not being put to optimum use. Recommendations are made to agencies for retention or disposal of property in addition to other asset management improvement recommendations.

Real property holdings no longer needed by a Federal agency are reported excess to GSA for further Federal utilization or disposal. If no further Federal requirement exists, GSA determines the property surplus and, based on its highest and best use, makes it available for public purposes, including homeless assistance. Property not acquired by Federal or public agencies or homeless assistance organizations is offered to the general public on a competitive basis either by sealed bids or public auction.

Federal Property Resources Service (FPRS)

Question. It is my understanding that GSA had established the Federal Property Asset Management Service to promote overall Federal real estate management. However, the two-month old Service was abolished in late January. What is the reason the Service was abolished?

Answer. The order establishing the Federal Property Asset Management Service (FPAMS) required a larger Central Office staff and established a new region. With limited resources available to GSA it was necessary to abolish the FPAMS to save the costs of a new region and to retain Central Office and region balance.

Question. Does GSA believe that without the service, it will be able to provide the type of strategic leadership that, up to this point, seems to be lacking?

Answer. Yes, the Federal Property Resources Service (FPRS) and Federal Property Asset Management Service (FPAMS) were virtually identical organizations based on policy and oversight direction. FPRS can provide the strategic leadership, since FPRS had already begun to refocus the Service based on a detailed study performed internally in FY 1988 and FY 1989 to reflect greater emphasis on oversight and policy.

Question. What will be GSA's approach for strategically managing the Government's real property assets without the input from the Federal Property Asset Management Service?

Answer. On November 30, 1991, the Federal Property Resources Service (FPRS) and the Office of the Governmentwide Real Property were merged into the Federal Property Asset Management Service (FPAMS). Except for the name change FPRS and FPAMS were virtually identical. FPAMS existed only two months. The Strategic Planning that took place was done by FPRS and the process is still ongoing in FPRS.

[The justifications follow:]

1. MISSION AND RESOURCES

FEDERAL PROPERTY RESOURCES SERVICE
Resources Summary
$(Thousands)

	FY 1992 Actual	FY 1993 Estimate
Appropriations:		
Operating Expenses, Federal Property Resources Service	$13,950	$13,933
Expenses, Disposal of Surplus Real and Related Personal Property	1,309	4,269
Real Property Relocation	12,000	-
Operating Expenses, Federal Property Resources Service Reimbursable (Obligations)	1,367	2,896
Expenses, Disposal of Surplus Real and Related Personal Property Reimbursable (Obligations)	97	300
EMPLOYMENT (FTE)	172	160

The FPRS mission is to provide leadership, policy, program direction, and appropriate program oversight to ensure timely accomplishment of cost effective and efficient real property utilization and disposal programs Governmentwide. This effort is based upon a commitment to developing interactive partnerships with clients through the institutionalization of quality management principles and practices.

The FPRS mission is financed through several accounts and sources: (1) Operating Epenses, Federal Property Resources Service (OE, FPRS); (2)Expenses, Disposal of Surplus Real and Related Personal Property; and (3) Real Property Relocation. OE, FPRS, is an annual appropriation provided for managing programs for the utilization and disposal of surplus real property. OE, FPRS, Direct, supports management, administration, and operation of programs including the Office of the Commissioner, Office of the Controller, Office of Real Estate Policy and Sales, Office of Systems and Information Management, and four regional offices. The reimbursable budget activity provides OE, FPRS funding for services that are provided to Federal agencies on a fully reimbursable basis.

Expenses, Disposal of Surplus Real and Related Personal Property is a permanent, indefinite appropriation used to finance contractual services of appraisers, auctioneers, and brokers familiar with local markets to accelerate the utilization or sale of surplus real property. It also covers the costs of surveying, advertising, and environmental and historical services.

The Real Property Relocation appropriation covers relocation costs involved in moving agencies from valuable underutilized property targeted for public sale, to facilities determined to be more economically suitable for their needs.

1. MISSION AND RESOURCES (continued)

OPERATING EXPENSES, FEDERAL PROPERTY RESOURCES SERVICE (DIRECT)
$(Thousands)

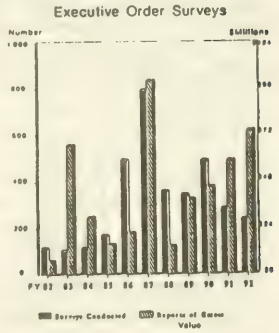
	FY 1992 Actual	FY 1993 Estimate
Real Estate Policy and Sales	$13,950	$13,933
Total Budget Authority	13,950	13,933
EMPLOYMENT (FTE)	162	141

This activity promotes maximum utilization of real property by Federal agencies and minimizes new procurements of real property by transferring available excess property among agencies. Pursuant to E.O. 12512, it provides Governmentwide policy oversight and guidance for Federal real property management, develops legislative initiatives that seek to improve such management, and conducts real property utilization surveys to identify real property which is not utilized or is under utilized, and recommends excessing of such properties. It provides for the economic and efficient disposal of surplus real property by sale, exchange, lease, permit, assignment or transfer for both private and public purposes. This activity provides for the protection and maintenance of excess and surplus property is order to retain maximum value and marketability pending its disposition. It provides for the appraisal of excess and surplus property and establishes the specifications, standards and methods governing such appraisals. Further, it provides for preparation of land reuse planning studies and environmental and cultural enhancement reviews required in the disposition of real property.

Utilization Surveys completed in fiscal year 1992 totaled 237 against a goal of 213. The following graph shows the Executive Order Surveys accomplished from fiscal year 1982 to 1992. FPRS is planning a change in program direction from property disposition to policy and oversight. The Survey Enhancement Plan reflects increased emphasis placed on the role of GSA in establishing governmentwide asset management policy. OMB has cited the Executive Order 12512 Survey Program as exemplary of the kind of asset management policy and oversight function that GSA should undertake.

($ in Millions)

	SURVEYS CONDUCTED	REPORTS OF EXCESS VALUE
FY 82	116	$ 7 3
FY 83	104	$ 69 4
FY 84	116	$ 30 6
FY 85	170	$ 16 3
FY 86	492	$ 22 4
FY 87	704	$103 9
FY 88	360	$ 15 2
FY 89	344	$ 40 3
FY 90	489	$ 47 0
FY 91	284	$ 60 6
FY 92	237	$ 77 0



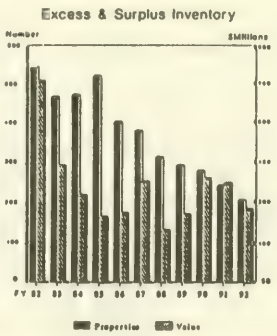
Properties were reported excess in fiscal year 1992 valued at $223 million vs a goal of $170 million. The following graph shows the value of properties determined by the head of an agency as not being needed to carry out its program

1. MISSION AND RESOURCES (continued)

responsibilities and reported to and accepted by GSA for disposition. Anticipated excess reports under the 49 Act are determined from Holding Agencies' Data Call responses and survey recommendations from prior years.

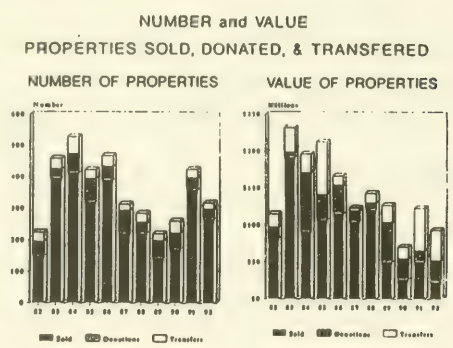
($ in Millions)

	PROPERTIES	VALUE
FY '82	518	$765
FY '83	468	$441
FY '84	474	$317
FY '85	529	$249
FY '86	406	$264
FY '87	383	$281
FY '88	315	$[illegible]
FY '89	293	$[illegible]
FY '90	281	$395
FY '91	245	$376
FY '92	209	$279



However, GSA has little control over what agencies actually report. The graph also reflects properties reported to GSA by Federal agencies for disposal under provisions of the Economy Act on a reimbursable basis.

In fiscal year 1992, FPRS disposals totaled 319 properties valued at $93.6 million, including sales of $23.3 million. Sales figures represent both sales of 1949 Act properties and other sales. The following graph shows total number and value of properties sold, donated, and transferred from fiscal year 1982 to 1992.



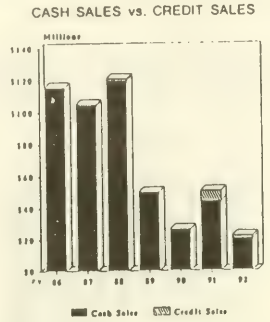
The sales represent both Property Act and disposals for other agencies. While over $180 million in sales were planned, poor market conditions, environmental issues, and Superfund studies hindered achievement of the goal. Some $100.9 million in

1. MISSION AND RESOURCES (continued)

planned sales were unsuccessful, $21.4 million postponed, and $34 million canceled. The following depicts the percentage of cash sales versus credit sales for fiscal years 1986 to 1992.

(Percent of Total Sales)

	CASH SALES	CREDIT SALES
FY '86	100 %	0 %
FY '87	99 %	1 %
FY '88	99 %	1 %
FY '89	99 %	1 %
FY '90	98 %	2 %
FY '91	87 %	13 %
FY '92	92 %	8 %



Other disposal achievements include the transfer of 20 properties worth $41.4 million to other agencies for continued Federal use. Thirty two properties worth $28.9 million were donated without monetary consideration to State and local governments and nonprofit institutions for public benefit purposes. This included seven properties valued at $6.5 million assigned to the Department of Health and Human Services (HHS) for homeless use.

I. MISSION AND RESOURCES (continued)

OPERATING EXPENSES, FEDERAL PROPERTY RESOURCES SERVICE (REIMBURSABLE)
$(Thousands)

	FY 1992 Actual	FY 1993 Estimate
Real Estate Policy and Sales	$1,367	$2,896
Total Reimbursable Obligations	1,367	2,896
EMPLOYMENT (FTE)	10	19

Currently the Office of Real Estate Policy and Sales provides on a reimbursable basis real estate disposal services. A great potential for Federal savings exists in the "reimbursable sales". Examples of such disposals are real property seized, forfeited, or foreclosed on by such agencies as the U.S. Marshals Service, Department of Housing and Urban Development (HUD), U.S. Customs Service, Small Business Administration, U.S. Postal Service, Internal Revenue Service, and the Resolution Trust Corporation. These represent specialized properties outside the purview of the Federal Property and Administrative Services Act of 1949. Due to the complex nature of the laws, regulations and procedures for disposing of real property, agencies whose primary mission is unrelated to property disposal have contacted FPRS to take advantage of our expertise in this area. On a reimbursable basis, seized, forfeited, or repossessed properties given to FPRS for sale was $156.7 million in fiscal year 1992.

Pursuant to the Military Base Closure Acts of 1988 and 1990, and delegations of authority to the Secretary of Defense, GSA/FPRS is responsible for overseeing the military base closure initiative to ensure adherence to the provisions of the Federal Property Act and for providing, as appropriate, policy guidance, administrative, and technical assistance.

During fiscal year 1992, FPRS formally organized both in the regions and Central Office to achieve this multibillion dollar, complex program objective. This is an ongoing process through the year 2001, inasmuch as Base Closure 3 (1993) and 4 (1995) are now being planned.

On May 8, 1992, FPRS completed and disseminated its Base Closure Tactical Plan which provides procedural guidance, establishes a communications network of working teams, delineates duties and responsibilities, and identifies dedicated resources. The plan is being fully implemented.

For fiscal year 1992, FPRS billed Air Force and Navy a total of $718,927 for services rendered, including 19 appraisals, 10 screenings, 6 disposal plans, 51 technical assistance/meetings, 3 disposal transfer documents, and 3 other services. FPRS disposed of 6 properties valued at $41.5M, including one each for prison and homeless purposes, and assisted in 2 leases valued at $97.5M.

Under the current Air Force Memorandum of Understanding, FPRS was requested to provide disposal plans for all 19 bases identified for closure under current legislation. FPRS accepted the assignment and estimates that fiscal year 1993 billings will range between $1.3 and $1.6M. In addition, FPRS expects to experience increased interaction with Navy and Army with respect to policy and guidance, administrative, and technical assistance. FPRS continues to view the Base Closure Initiative as a critical component in fiscal year 1993, both in revenue generation, and policy and oversight opportunities.

I. MISSION AND RESOURCES (continued)

EXPENSES, DISPOSAL OF SURPLUS REAL AND RELATED PERSONAL PROPERTY (DIRECT)
$(Thousands)

	FY 1992 Actual	FY 1993 Estimate
Disposal Real Property	$1,212	$3,752
Outleasing Government - Owned Space	97	517
Total Budget Authority	1,309	4,269
EMPLOYMENT (FTE)	-	-

Funds made available under this heading finance contractual services of appraisers, auctioneers, and brokers familiar with local markets as well as contractual surveying and advertising costs. Public Law 100-610, dated November 5, 1988, amended Section 204 (b) of the Federal Property and Administrative Services Act of 1949 to include under this appropriation contractual costs for environmental and historical preservation services. These services supplement the regular staff of GSA who are financed through the Operating Expenses, Federal Property Resources Service appropriation to accelerate the sale of surplus real property and through the Federal Buildings Fund to improve the utilization of the buildings in the Public Buildings Service inventory of Government - owned real property by outleasing of that space. Funds are made available by apportionments approved by the Office of Management and Budget, from receipts from sales and outleasing of surplus property, subject to a limitation of 12 percent of the proceeds of all disposals within each year, and are available for obligation only during the year in which they are approved.

As funds provided for this program are under a permanent legislative authorization (subsection (b), Section 204 of the Federal Property and Administrative Services Act of 1949), which requires only the approval of the Director, Office of Management and Budget under the normal apportionment process, no annual appropriation action by Congress is required.

This account supports the President's real property asset management initiative begun in fiscal year 1983 to identify unneeded Federal real property and to accelerate its deposition by transfer to other Federal agencies, by conveyance to State and local governments and eligible nonprofit institutions for public purposes, or by sale to the general public thereby increasing local tax revenues and employment opportunities.

Funds under this heading finance the following direct contractual expenses incurred in the utilization of excess real property and the disposal of surplus real property: (1) appraisers' fees; (2) auctioneers' fees; (3) brokers' fees; (4) surveying expenses; (5) advertising expenses; (6) environmental services; and (7) historical preservation services. In attempting to reach more potential purchasers and ultimately realize higher sales proceeds through increased competition, emphasis will be placed on broader advertising of surplus properties.

The outleasing of Government - owned space will increase the efficiency and effectiveness of GSA's management of its space inventory by providing another alternative for the utilization of vacant space. Under authority granted in section 203 of the Federal Property and Administrative Services Act of 1949, as amended, Government - owned space may be leased to a non - Federal tenant. The funds will be used to fund the cost of brokers and appraisers and for advertising required to outlease Government-owned space in 1994.

I. MISSION AND RESOURCES (continued)

EXPENSES, DIPOSAL OF SURPLUS REAL AND RELATED PERSONAL PROPERTY (REIMBURSABLE)
$(Thousands)

	FY 1992 Actual	FY 1993 Estimate
Disposal Real Property	$97	$300
Total Reimbursable Obligations	97	300
EMPLOYMENT (FTE)	-	-

Funds made available under this heading finance contractual services necessary for the disposal of Department of Defense properties requiring reimbursement under section 204(h) of the Property Act. Public Law 101-510, Section 2805, requires GSA to deposit net proceeds from the disposal of non-base closure Defense properties in a special Department of Defense (DOD) account in the Treasury of the United States. Prior to disposition of proceeds, GSA will deduct contractual type disposal expenses, which include fees for appraisers, auctioneers, and brokers, and costs for surveying, advertising, and environmental and historic preservation services, as well as direct operating costs; such as salaries and benefits, travel, and overhead, incurred in the disposal of properties.

I. MISSION AND RESOURCES (continued)

REAL PROPERTY RELOCATION
$(Thousands)

	FY 1992 Actual	FY 1993 Estimate
Relocation Expense	$12,000	-
Total Budget Authority	12,000	-
EMPLOYMENT (FTE)	-	-

No appropriation is requested for the program in 1993. GSA will solicit relocation proposals from agencies and request funds to implement only those proposals that have the highest economic benefit to the Government.

The funds for this activity are used to support the goal of the Federal Property Resources Service and the objective of Executive Order 12512, which is to provide for the optimum utilization of Federally-owned real property. Currently, valuable Government-owned property exists that is now underutilized, but which has not been released for disposal by the landholding agencies. This is often due to the high cost of relocating personnel and equipment and of acquiring new facilities.

Such properties could provide significant revenue if sold, but under current laws the holding agency usually must provide the funds for relocations. For these reasons, agencies are reluctant to release properties for sale regardless of their value and suitability for commercial use. By providing agencies with these funds, there is an incentive for them to agree to move. Further, long - term savings will result from the operation and maintenance of facilities better suited to agency missions.

In addition to soliciting Executive land holding agencies, GSA has incorporated the identification of relocation candidates into the Executive Order 12512 survey program.

II. INITIATIVES AND ISSUES

ISSUE: Operating Expenses, Federal Property Resources Service is currently funded from sales receipts, but declining receipts may result in receipt levels inadequate to cover OE, FPRS funding requirements.

DISCUSSION: Several factors are contributing to this trend of lower receipts. In the past, a very large portion of GSA receipts came from the disposition of Department of Defense (DOD) properties. Two recent pieces of legislation have removed DOD properties as a sources for sales receipts. The DOD Base Closure Act provides for disposal receipts to be retained by DOD. If GSA is involved in the disposal of property, GSA may be reimbursed for any expenses incurred. Another piece of enacted legislation covers regular DOD properties other than base closures. This legislation amends the Federal Property Act by requiring that disposal receipts be deposited in a special Treasury account for use by DOD. Again, GSA may only retain funds to cover certain expenses incurred by GSA for its involvement in the sale. Similar legislation which has the same effect regarding receipts has been enacted for other agencies. For example, both Veterans Affairs and Agriculture have legislation which designates specific uses of the funds generated from the sale of property and, therefore, precludes GSA from obtaining the receipts. In this regard, it should be noted that GSA is increasingly providing technical and administrative assistance to agencies with independent disposal authority in the sale of unneeded Federal real estate on a cost reimbursable basis pursuant to provisions of the Economy Act (31 USC 1535a).

In another area, GSA is involved with making underutilized and unutilized property available to the homeless as a result of the Stewart B. McKinney Homeless Assistance Act. Property utilized in this way is not available for sale and, therefore, reduces sales receipts. In other cases, special legislation is enacted which requires that GSA transfer property "without reimbursement". Again, the impact of this type of legislation is to eliminate potential sources of receipts for GSA which fund the FPRS program.

II. INITIATIVES AND ISSUES (continued)

ISSUE: To determine the current and future factors bearing on Federal real estate asset management and to analyze these factors relative to GSA's role.

DISCUSSION: Since the first Hoover Commission in 1949, numerous high level studies of real property management in the Federal Government have had a common theme in their conclusions and recommendations. Centralized authority, combined with the requisite expertise, is essential to effective real estate asset management.

Such centralized authority would reduce overhead costs, result in more effective use of real estate and generate higher sales revenues. Moreover, it would lead to the development of consistent policies, sound implementation strategies and serve to eliminate confusion and mistrust on the part of the public.

During the past decade, corporate America has focused increased attention on the value of its real estate holdings, different from their historical treatment of property as a means of production or a cost of doing business. This is apparent in the creation of "corporate real estate offices" in virtually every major United States company. They are a centralized organization of real estate experts who bring a business approach to managing property. The objectives are to contribute to the corporate financial performance by helping each segment of the company optimize the use of real estate assets.

Unfortunately, the Federal Government has gone in the opposite direction in its treatment of asset management during this period. Today real estate management authorities are dispersed among at least 17 agencies, 10 of which perform substantial property disposals. This is at a time when the Federal Government can least afford duplication of effort, and most needs to maximize the disposition of assets for financial or socioeconomic purposes. The present fragmentation precludes a comprehensive analysis of the Federal Government real estate holdings or the development of strategic plans for utilization, development or disposal.

ACTION REQUIRED: To remain relevant and viable as an organization in the 1990's, FPRS is planning and executing a real estate program designed to address the unprecedented challenges and opportunities of this new era, as well as revitalizing and reorienting the program to keep pace with fast - occurring national and international political, economic, and social changes. This includes planning a more aggressive outreach program in cooperation with other Federal agencies to offer FPRS asset management services, including a centralized automated inventory of real estate being disposed of by the Federal Government, and a comprehensive legislative program.

The groundwork was laid in fiscal year 1992 for FPRS to provide greater leadership in anticipation of a increased need for a central source of Governmentwide program management information and coordination on real property use and disposal matters.

The new FPRS will be involved in expanding GSA's central role in real property asset management and provide a major shift in program direction. The shift in program direction will take place over a 3 year period commencing in fiscal year 1993. As opposed to the historical focus on the utilization and disposal of Federal real property, FPRS will give greater emphasis to asset management guidance and oversight Governmentwide, while encouraging coordination and cooperation among all executive landholding agencies.

As in the past, FPRS will continue to provide administrative, technical, and marketing services to other agencies on a reimbursable basis, while redirecting its role in disposal operations to increased reliance on service contracts for use by the Federal community. FPRS will provide a comprehensive schedule of commercial contracts through which agencies can order real property asset management services, including, but not limited to, appraisals, land use studies, environmental assessments, and property management and disposal services such as marketing and brokering.

FPRS is envisioned to be the leader for the Federal Government in developing and implementing coordinated comprehensive policies and procedures that improve how real property is acquired, managed, utilized, and disposed of under a life cycle concept. With a highly trained and professional workforce, FPRS will strengthen its oversight role and serve as a repository of information for all Federal real estate owned, leased, controlled, and disposed of under an expanded and improved automated system. Presently, no such central management program exists in the Federal Government. The opportunities for efficiency and savings to the Nation are immeasurable.

II. INITIATIVES AND ISSUES (continued)

ISSUE: Asset Management Program

DISCUSSION: Since Executive Order (E.O.) 11508 was signed February 10, 1970, GSA has conducted asset utilization evaluations (surveys) of Federal properties. In the mid - 1980's GSA initiated an oversight review of agencies' real property programs through an annual Data Call in coordination with OMB. As part of its ongoing oversight program development, GSA/FPRS expanded its survey reviews in 1992 to incorporate management improvement and relocation recommendations.

The Asset evaluation (survey) program has had a positive influence on overall asset management among Federal agencies in addition to identifying excess property. For example, excess property is transferred to another agency, thus saving the Government the cost of acquiring new property. The program has also provided the stimulus for other agencies to dispose of property or take property management actions through special legislation, i.e., base closures. The relocation program has enabled holding agencies to move from under utilized, high - value properties to state - of - the - art properties with GSA and OMB providing the necessary funding (based on a cost/benefit analysis indicating that disposal of the released property would result in a two-to-one ratio of return to the Government).

GAO indicated in a September 1991 report that the identification and disposal of excess real property is vulnerable because agencies are reluctant to release unneeded property. In the current environment for improved Federal asset management, OMB has identified GSA's strategic position in this area as ideal for moving to the forefront in establishing Governmentwide asset management policy. E.O. 12512 directs GSA to improve the oversight and guidance for real property management and set standards and procedures for reviewing real property holdings. In fiscal year 1992, GSA began action to strengthen and expand the E.O. 12512 program as an asset management policy and oversight function.

While the GSA has oversight responsibilities under E.O. 12512 for conducting real property asset management evaluations of agencies' landholdings and identifying under utilized and unneeded properties, there is no central point of responsibility to resolve disputes. Also, 17 Federal agencies have independent authority to manage and dispose of properties which are not subject to the GSA program.

II. INITIATIVES AND ISSUES (continued)

ISSUE: Improved Real Property Information Systems

DISCUSSION: Each of the 17 Federal agencies with real property assets maintains information on its assets in accordance with its own policies and procedures. Each agency may develop its own automated systems to maintain that information.

GSA is responsible for preparing the Inventory of Real Property Owned and Leased by the United States, based on information provided to GSA by the various agencies. Annually, agencies submit basic information on real property assets. GSA accumulates the information and publishes inventory listings and summary reports. The lack of key information, incomplete agency submissions, and preparation lag time diminish the usefulness of the Federal real property inventory. In addition, the inventory does not contain any information on real property in which the Federal Government has a financial interest due to seizure, forfeiture, or foreclosure.

In an effort to assist the agencies to manage their real property assets better, GSA has developed and offers to agencies a generic automated real property information system, Foundation Information for Real Property Management (FIRM). This generic system has been adopted by a number of agencies and can be adopted by additional agencies to meet their real property information needs.

GSA has also developed and maintains the Federal Real Estate Sales Bulletin Board. This bulletin board provides general on information of all Federal real estate sales and specific information on GSA sales to the public; information on property available for Federal transfer to the Federal agencies; and information on discount conveyances to state, local and nonprofit organizations.

ACTION REQUIRED: In order to better serve the Federal agencies in developing, maintaining, and utilizing real property information systems; to foster better real property management among the agencies; and to be able to provide the public, the Office of Management and Budget (OMB), and the Congress with accurate information; GSA should work with the agencies, OMB, and the Congress to conduct an overall review of Federal real property information needs and make recommendations for a coordinated approach to managing Federal real property information. Recommendations could include proposals to improve the inventory, FIRM, and bulletin board.

Accurate and timely real property information is essential to improving the management of the Government's real estate assets.

THURSDAY, FEBRUARY 18, 1993.

INFORMATION RESOURCES MANAGEMENT SERVICE

WITNESSES

G. MARTIN WAGNER, DEPUTY COMMISSIONER, INFORMATION RESOURCES MANAGEMENT SERVICE

FRANCIS A. McDONOUGH, ASSISTANT COMMISSIONER FOR FEDERAL INFORMATION RESOURCES MANAGEMENT

ELAINE McNAMARA, ACTING CONTROLLER

STEVEN GARFINKEL, DIRECTOR, INFORMATION SECURITY OVERSIGHT OFFICE

MICHAEL CORRIGAN, ASSISTANT COMMISSIONER FOR TELECOMMUNICATIONS SERVICES

WILLIAM B. EARLY, JR., ACTING CHIEF FINANCIAL OFFICER

INTRODUCTION

Mr. HOYER. Good afternoon.

This afternoon we are going to do a number of other GSA divisions, departments, and offices. I am pleased to have Mr. Wagner with us, he is the Deputy Commissioner for Information Resources Management.

Mr. Wagner, we welcome you. You may introduce the rest of the people you have brought with you.

Mr. WAGNER. Thank you, Mr. Chairman, Members of the Committee, Mr. Lightfoot. I am pleased to be here. Thank you for the opportunity to describe our program to you.

I am accompanied by Ms. Elaine McNamara, our Acting Controller. Bill Early, who I understand you know. We have Mike Corrigan, who is the Assistant Commissioner for Telecommunications Services. And Frank McDonough, the Assistant Commissioner for Federal Information Resources Management. He is the man who has the regulatory oversight for the $24 billion a year that we spend in this technology, in this government. We also have Steve Garfinkel.

He is available to answer any questions on his program, the Information Security Oversight Office.

I have a prepared statement.

Mr. HOYER. We will include the prepared statement in the record as you have presented it. You might want to highlight or abbreviate to the extent you feel comfortable, which gives us an overview.

SUMMARY STATEMENT OF MR. WAGNER

Mr. WAGNER. Thank you. Let me do that, and give a brief overview. First, though, I would like to set the stage.

I think if you look at this technology, what is going on in the Federal Government, and also throughout the country as a whole, we are going through a very revolutionary period in this technolo-

gy. Until about 1960, computers didn't matter that much, telecommunications certainly did, but somewhere around the early 1960s, the era of the mainframe computers, we went through a great deal of computerizing of our operations, primarily backroom operations, clerical operations, and from 1960 to 1980, thereabouts, we had a lot of growth of productivity from the mainframe computer primarily and more in the back room.

Starting about 1980, the personal computer revolution began, and we went from having essentially no personal computers to a million personal computers in less than 10 years.

Today, we probably have about one personal computer for every white-collar worker in the Federal Government. It is an incredible proliferation.

We are now going to go through yet greater change——

Mr. HOYER. What would that number be?

Mr. WAGNER. We don't have good statistics on that, but it is well over a million. The number in 1990 was about a million.

Do you have better numbers than that, Frank?

Mr. MCDONOUGH. I project around a million eight, somewhere in that vicinity.

Mr. HOYER. One point eight million, of the 2 million?

Mr. WAGNER. Yes. It has been an extreme explosion.

Now, what is happening is they are being connected together. They are being connected to each other, to mainframes, to local area networks.

We recently handled the job of the transition of the new administration. It used to be that administrative needs would be handled—you had to arrange for space, desks, information, and maybe a few personal computers during the transition that took place four years ago and eight years ago. This time we had a month to install a local area network with 400 personal computers, tie them with direct connections with Little Rock, and set up an automated facility to support the new administration as they prepared to take over in the White House.

It was a fundamental difference in how we were operating for the government. It is an important difference. I have a perhaps, one-sided view of it. However, it is going to be the way we get the increased productivity we need to have, and also to improve the quality of the services we give our citizens.

As I said at the beginning, we are spending $24 billion a year on this technology, and this technology is how we are going to be able to deal with what the country needs within the fiscal constraints we face.

Now, let me go briefly, and this is now where I get into the statement, sort of the basic areas that we have. First, we are in the government-wide policy business. That means we are evaluating emerging issues and developing what are the appropriate policies and regulations we should have as a government. We then implement those policies through the regulations we write.

And by giving delegations of procurement authority (the right to buy this technology that agencies have), we then follow up on a rotating basis, going through the departments and agencies. We will hit nine this year, plan to hit every three years 99 percent of the expenditures (going back and reviewing how the agencies actually

do their work). That is the governmentwide policy oversight portion of our program.

In addition, we offer local telecommunications services. We have half a million local telephone service customers. We cut their phone bills by about 35 percent. And we also bring them the state-of-the-art telecommunications they need. Because of this technology that I said was changing the way we do business, it needs a good telecommunications infrastructure to do that.

In addition, we give technical assistance. We have certain expertise in this area. We do about $344 million of work for other agencies, both agencies doing major projects primarily in the D.C. area, and also agencies throughout the country who have relatively small programs but important programs in every State in the Union.

Next, we have a schedules program by which we use the government's buying power to negotiate good prices and good arrangements with contractors. Then agencies who are buying in small amounts, five or 10 personal computers, for example, can get a better price with a simpler administrative process than they otherwise would have to go through.

We then have internal operations within GSA in which we support GSA with its computer and telecommunications businesses. This year, we will probably move a trillion characters of data. That gives you some sense of how computers and data communication are getting more important.

We also have some programs of direct service to the public. The Federal Information Center in Cumberland, Maryland, which helps people who want to deal with their government to find where in the government to go to, and also the Federal Information Relay Service, by which the hearing impaired can call to and from the Federal Government and get some help.

We are in the middle of, as I said in the beginning, a revolutionary period. The challenge is great but it is also an important challenge for us to meet, because this is the way we are going to get the productivity increases and the service improvements that we are going to need.

And that is the end of my quick summary. I would be happy to answer any questions that you might have.

[The statement follows:]

STATEMENT OF G. MARTIN WAGNER
DEPUTY COMMISSIONER
INFORMATION RESOURCES MANAGEMENT SERVICE
BEFORE THE
APPROPRIATIONS SUBCOMMITTEE ON
TREASURY, POSTAL SERVICE,
AND GENERAL GOVERNMENT
HOUSE OF REPRESENTATIVES

February 18, 1993

Mr. Chairman and Members of the Subcommittee:

I am pleased to appear before you today to present an overview of the General Services Administration's Information Resources Management Service. Accompanying me today are Mr. Francis A. McDonough, Assistant Commissioner for Federal Information Resources Management; Ms. Elaine McNamara, Acting Controller of IRMS; and Steven Garfinkel, Director, Information Security Oversight Office, who is available to brief you on governmentwide security programs.

OVERVIEW

In this age of information, the Federal government depends on state-of-the-art telecommunications and computer systems to help agencies provide quality services to the public and to decide how the business of government will run more effectively.

The Information Resources Management Service (IRMS), the major high-technology arm of GSA, ensures that Federal agencies procure, manage and use automated data processing (ADP) and local telecommunications resources as efficiently and effectively as possible. IRMS sets policy for the acquisition and use of information technology governmentwide, assists agencies in acquiring ADP related services and computer equipment, and provides quality, low-cost local telecommunications services. In fulfilling both our policy and operational roles, our mission is to help Federal agencies accomplish their missions.

IRMS obtains its financing primarily from its client agencies. Our programs are financed through reimbursements for local telecommunications, information technology support services, and for providing information processing, data communications, networking and end-user technical support services. Only four percent of funding for IRMS comes from direct appropriations.

I would like now to update the Subcommittee on the status of these programs. The six major programs in IRMS that provide cost-effective, quality programs in information resources to the Federal government are:

- Governmentwide Policy for Information Resources Management
- Local Telecommunications Services
- ADP Technical Assistance
- IRMS Schedules Program
- Internal GSA Information Resources Management, and
- Direct Services to the Public.

1. GOVERNMENTWIDE POLICY FOR INFORMATION RESOURCES MANAGEMENT

IRMS is responsible for directing and managing governmentwide IRM programs. Through its regulatory authority, IRMS provides oversight to agencies in the efficient and productive management of their IRM assets. IRMS identifies emerging governmentwide IRM issues and provides a central point of leadership for addressing those issues. For example, the Service to the Citizens program addresses the government's focus on using technology to provide services to the taxpayers. Another issue of current interest is the potential for tremendous savings through energy efficient personal computers. IRMS is taking the lead in addressing this opportunity with industry and government IRM leaders.

IRMS oversees the IRM procurement activities of agencies governmentwide. In fiscal year 1992, more than 700 delegations of procurement authority were granted to Federal agencies, worth more than $26 billion. These range from the Defense Department's Corporate Information Management systems to highly sophisticated computers used to process data from the Hubble Space Telescope.

In addition, last year IRMS performed comprehensive management reviews of six agencies' IRM programs. To ensure that the largest agencies are reviewed every three years, IRMS is increasing the number of these reviews from six to nine this year. In addition, IRMS has conducted comprehensive reviews of more than 100 of the largest Federal agency acquisitions.

IRMS also initiated a program to expand proposed acquisitions for commercial off-the-shelf information resources by 10 percent for use by all Government agencies. This allows agencies with small requirements to save considerable time and cost for acquisitions they would otherwise have to perform themselves.

Another leadership initiative, the Trail Boss program, begun in 1988, has built and continues to build a network of expertise within the Federal government of senior information technology managers who lead major technology acquisitions. IRMS has trained more than 500 Federal managers through three seminars in acquiring, implementing, and contracting major information systems.

IRMS continues to publish bulletins which provide guidance on the Federal Information Resources Management Regulation (FIRMR) and various IRM subjects. The FIRMR is now available on compact disk and includes 23 additional current IRMS technical publications.

2. LOCAL TELECOMMUNICATIONS SERVICES

Through its Local Telecommunications Programs, IRMS extends to all Federal agencies the products and services utilizing the latest in digital telecommunications technologies. The Local Telecommunications Program provides efficient delivery of state-of-the-art local telecommunications services to client agencies whenever feasible and cost-effective for the government. This program is committed to satisfying clients' telecommunications requirements by offering an opportunity to order and receive the best and most cost-effective telecommunications products and services in a timely manner.

Through a network of 331 systems currently in place, IRMS provides local telecommunications services to Federal agencies at GSA's "consolidated" locations. These products and services provide features and capabilities that are used by 500,000 Federal employees throughout the government to improve their own productivity and effectiveness.

We provide these local services with considerable savings to the taxpayer, with an average monthly line rate for client agency telephone service at approximately 35 percent under the equivalent commercial rate, saving approximately $100 million for the 1992 Fiscal Year.

Our Aggregated Systems Procurement (ASP) initiative is a complex procurement mechanism to replace obsolete local telecommunications systems in Federal agencies outside Washington, D.C. with state-of-the-art digital voice and data telecommunications services. When completed, ASP contracts will serve agencies in 94 cities, 272 locations, with 180,000 telephone lines.

In the Washington Metropolitan area, the Washington Interagency Telecommunications System (WITS) connects 130,000 Federal clients to a digital telephone system and also provides new telephone and related equipment to the area Federal community. Over the 10-year life of this current contract, WITS will save taxpayers an estimated $41 million.

On the national level, IRMS's telecommunications programs support the country's readiness for emergencies and disasters. In recovery efforts associated with Hurricanes Andrew, Iniki, and Omar, IRMS emergency telecommunications coordinators were deployed to establish essential communications on an expedited, priority basis for thousands of Federal, state and local government disaster workers.

Our Information Security Management Division provides a full range of information security services for Federal telecommunications and computer systems. This program provides a 4-hour emergency response to mission critical systems. The program has averaged about 1300 service requests per month through the first quarter of this year.

IRMS has led the Federal government, as well as the nation, in adopting new telecommunications technologies, such as the Integrated Services Digital Network (ISDN). These improvements benefit the government, as well as the nation, by improving our technology infrastructure and enhancing national competitiveness. Database sharing, fiber-optic networks, electronic mail and electronic data interchange are a few of the topics IRMS addresses through interagency activities. IRMS Local Telecommunications demonstrates governmentwide leadership as an advocate for state-of-the-art technologies which improve the efficiencies of government. IRMS is currently leading a study of the Iowa Communications Network, a state-wide, high-speed, fiber-optic, network which can support all types of data communications, including interactive video-technology. In cooperation with the Postal Service and Treasury Department, IRMS is examining the potential uses of the Iowa network in the delivery of essential public services provided by Federal, state and local agencies.

3. ADP TECHNICAL ASSISTANCE

IRMS provides non-mandatory, reimbursable technical and contractual assistance to Federal agencies, and serves as a source of expertise in information resources management for government. IRMS sponsors and supports three complementary programs-- the Federal Systems Integration and Management Center (FEDSIM), the Federal Information Systems Support Program (FISSP), and the Federal Computer Acquisition Center (FEDCAC).

FEDSIM, located in Falls Church, Virginia, delivers a wide range of reimbursable information services, including support in systems acquisition, systems integration, systems management, software management and networking. FEDSIM supports Federal agencies by providing direct technical support, conducting value-added acquisitions, awarding and administering a governmentwide information transfer program. FEDSIM supported more than 400 clients during FY 1992.

FISSP, with offices coast-to-coast, provides Federal agencies technical, administrative, and contractual support in acquiring services. FISSP contracts for the consolidated requirements of its clients, achieving economies and savings to the government through volume buying and by avoiding multiple procurements. FISSP provides economies of specialization through value-added technical and procurement expertise.

FISSP personnel act as technical consultants, project managers, and contract administrators. FISSP awarded over $185 million in new task orders in FY 1992.

FEDCAC, located in Lexington, Massachusetts, competitively acquires large dollar-value (i.e., life-cycle cost greater than $100 million) hardware, systems software, and associated services such as maintenance, training, and systems analyst support for client agencies.

FEDCAC assists agencies by defining requirements, developing specifications, determining contractual terms and conditions, preparing technical and cost-evaluation criteria, and validating and evaluating proposals. FEDCAC contract officers award the resulting contract on their behalf. FEDCAC, in this first full year of operation, signed agreements with four Federal agencies to conduct acquisitions with a potential contract award value in excess of $1 billion. These contracts will save approximately $40 million in pricing and administrative costs.

These programs are financially healthy, demonstrated by the continuing rise in demand for their services. They play an important role in the Government's use of advanced information systems.

4. IRMS SCHEDULES PROGRAM

IRM technology is critical to agency programs. IRMS's Schedules contracts allow each agency-- whether large or small-- to take advantage of huge economies of scale. In 1992, savings totalled more than $950 million from this program. This figure is even more impressive when we remember that computer power has increased manyfold in the last decade, while price has plummeted more than 150 percent.

Through the IRMS Multiple Awards Schedules, GSA customers have purchased nearly $2 billion a year in computers and telecommunications hardware, software and services. These schedules are comprised of contracts with more than 1,000 private companies from which agency clients can order directly.

5. GSA INFORMATION RESOURCES MANAGEMENT

In directing the internal agency-wide IRM program at GSA, IRMS provides leadership through policies, procedures, delegated authorities, IRM reviews and common-use support services. By striving to improve its strategic use of information, GSA is building a high-level framework representing the agency's immediate and long-term information needs. This framework will withstand changes in the agency's structure and the way in which business is conducted, while focusing on the integration of two critical resources: human resources and information technology.

To address GSA's information technology needs for the future, a 10-year, $338 million, multi-tiered, state-of-the-art information technology contract, GSA "Systems" was awarded for agency-wide use. The contract will facilitate the future development and operation of user applications and office technology systems.

GSA operates an internal wide-area data communications network comprised of 87,500 miles of FTS2000 circuits that in 1993 is expected to transmit 1 trillion characters of data from 7000 on-line devices. A state-of-the-art local area backbone network (LABN) was recently installed that provides for intra-building and wide-area connectivity for all major GSA locations nationwide. The LABN currently provides interconnectivity for 80 local area networks (LANS) with another 100 LANS to be connected shortly.

GSA was one of the first Federal agencies to implement private X.400 electronic mail (E-Mail) services with interfaces to the government-wide FTS2000 network. In 1992, GSA integrated three existing dissimilar E-Mail systems into one E-Mail system which is routinely used by 50% of GSA's office workers.

GSA also supported the Presidential transition by providing office automation, and computing and communications resources. Within a 30 day period, GSA successfully designed and implemented a 400 plus workstation local area network system linking transition headquarters with Little Rock, Arkansas.

Our Center on Computer Accommodation (COCA) was established to ensure that meeting the information access needs of persons with disabilities is an integral part of GSA's IRM program. The COCA provides a government wide resource for technical consultation and serves as a model for other agencies as they establish business information practices that accommodate persons with disabilities. The Center demonstrates how GSA's leadership response to a new statutory requirement facilitates program replication throughout the government.

6. DIRECT SERVICE TO THE PUBLIC

IRMS operates two direct service programs providing services directly to the general public. The Federal Information Center (FIC) program provides direct, toll-free "800" access for voice and TDD callers from more than 70 key metropolitan areas throughout the United States in its role as a clearinghouse for information about the Federal government's agencies, programs and services.

The 1.5 million calls that the FIC receives annually extend over the full range of government activities. The most common questions asked are about Federal income taxes, Social Security benefits, immigration and naturalization issues, and Federal jobs.

The Federal Information Relay Service is an intermediary for nationwide telephone communications with and within the Federal government between hearing individuals using standard telephone handsets, and hearing- and/or speech-impaired individuals using Telecommunications Devices for the Deaf (TDD). This service relayed 44,000 calls in 1992.

IN SUMMARY

The Federal government is the largest single user of information technology in the world spending more than $24 billion in fiscal year 1992 on information technology, with a 10 percent annual growth rate, and spending billions more to run its existing computer systems.

Federal expenditures represent 6 percent of the total U.S. and 3 percent of the worldwide expenditures on information technology. Clearly, the effective use and management of this technology is critical to government, if government is going to deliver services citizens require within existing and future budget constraints.

In the past 12 years, the Federal government has made increasingly larger investments in information technology and automation initiatives, while keeping government employment at the same level as 1960.

Ensuring the best value to the Federal government and the public is a central role for IRMS. Our ability to promote low-cost, competitive acquisitions and effective use of information technology does indeed help agencies perform their missions more efficiently; but more importantly, IRMS provides great savings to the taxpayer.

GOVERNMENTWIDE OVERSIGHT

Mr. HOYER. According to GAO, GSA has not been exercising its government-wide oversight responsibilities, especially in the area of acquisition of automated data processing, which, as you point out, because there has been such an explosion, it is obviously critically important.

What is GSA doing to strengthen and improve both the quantity and quality of its oversight of agencies, ADP acquisitions?

Mr. WAGNER. Let me first say I believe most of GAO's conclusions were probably from about three years ago, and we have taken some steps between the way we were then to address those concerns that they had.

The first thing we have done is, we have broken our regulatory process into three tiers. Where we have a type 1 review, which is a relatively streamlined—it is smaller buys, quickly goes through our system. We then concentrate on the middle size system, and then have large efforts on our large systems, and we feel that has improved the quality of our oversight. We have put more people, increased the grade structure, we have reorganized how we do it as part of the supporting of the reviews.

In addition, we found that we were tending to do too much at the front end relative to the back end. We would write the regulations, tell people what to do but did not go back often enough and see how they had done. So we have increased our reviews of agency performance, going from first three a year to six a year, and this year we will go into nine agencies to review how they are doing their operations. And then we work with the agency to improve their processes.

Those are the steps we have taken to date, and of course we will be looking for any further improvements we could make.

Frank, did you want to add anything to that?

TRAIL BOSS PROGRAM

Mr. MCDONOUGH. I would just add we developed the Trail Boss Program——

Mr. HOYER. The Trail Boss?

Mr. MCDONOUGH. Remember the Trail Boss? He took them from Oklahoma to the mountains through the high climate and brought them home to good climate in California?

We have been training 400 people from across all the agencies in the government to be Trail Bosses, to manage the major acquisitions, to buy the systems that this government needs.

Mr. HOYER. Have you gotten involved with IRS at all?

Mr. MCDONOUGH. Oh, yes.

Mr. WAGNER. We recently did one of the procurement management reviews of the Treasury Department. I believe we were there in the spring and summer. We just finished the report for Treasury, in reviewing their operations.

Mr. MCDONOUGH. Treasury was finished about Christmastime.

FEDERAL PROCUREMENT PROCESS

Mr. HOYER. I don't want to make IRS a part of this hearing because it will take a long time, but I want to go back to it. We had a

hearing about IRS, as you may know, and I am very concerned about Tax Systems Modernization.

I would like to hear your comments with reference to the procurement requirements of the Federal Government which require agencies to go through a long process. When an agency sees a system off the shelf that will serve their needs, then they are unable to purchase it. Frank Raines of Fannie Mae, and I were at a conference this weekend. He was talking about procurement processes and how it is costing us literally millions of dollars, and we are encouraging folks without any prior experience to get into the bidding process. Because of these processes you can't buy a system off the shelf and apply it, you can't do that, you need to put out the RFP, et cetera, et cetera.

One of those stories that you tell, that you draw great truths from which may or may not have any application, was told by Frank Raines. He said all a contractor produces was a black box and bells in response to an RFP, and that is all they ever had. They are now in jail because they won the contract and they could not produce a system at all.

IRS has gone through probably the largest system reviewed by this Subcommittee, two attempts, to get its system modernized, and we have ended up back at the drawing board. This is an area where I think perhaps we could save millions of dollars.

As an example, I have a lot of plastic in my pocket, four or five credit cards which any store in the world can access. My account can be known to that machine like that. They do transactions daily, not annually, and it therefore raises the question, if the private sector can handle millions of requests a day, worldwide, it seems that we could apply that expertise and technology so that any taxpayer in America could in effect put his or her card in and find out where they are. In fact the system would produce it as quickly for IRS agents as it produces it for the retail clerk.

Mr. WAGNER. I think you support the point we were making about the revolution in the technology and how can you change it, because the quality of the service to the taxpayer can be improved incredibly through this sort of technology.

We have also worked a lot on the procurement system in working out ways to make it work better. A good example is buying commercially off-the-shelf equipment, not letting the procurement system bias you towards writing these very complex requirements that really are just a long-winded way of saying you want a word processing program that you can go down the street and buy in a store.

In many places we blame the procurement system, and sometimes it is the procurement system or maybe it is the way we use it. We in fact work to put together guidance for agencies for how they can do this sort of thing and find good examples in how they might go about buying commercial off-the-shelf equipment.

We would be pleased to help you in any with regard to the IRS.

DELEGATION OF OVERSIGHT RESPONSIBILITIES

Mr. HOYER. Do you believe some of your oversight responsibilities could be delegated to other Federal agencies?

Mr. WAGNER. I would say we already delegate a fair amount of the oversight to the other agencies. Right now there is about $24 billion a year spent. We have in the actual regulating——

Mr. HOYER. Let me make sure I know what you mean; $24 billion spent——

Mr. WAGNER. On information technology. That would be computers, telecommunications, local area networks. And it is by the Executive Branch agencies only. That will be our figure we will represent, I think 6 percent of the United States market in this technology. We are one of the larger buyers.

There are 33 people who are in the direct business of reviewing the actual acquisitions. You can't do that with 33 people. It is a big government out there. So what we have is a process by which it is delegated to the departments who themselves maintain and manage a regulated process which may then go down to a bureau. So to a large extent, we have decentralized the regulation, although the oversight still comes directly from us.

Mr. HOYER. So you will have a lot of the work done by the agencies that then you review?

Mr. WAGNER. Right, and that is why we will go in once every three years.

WHITE HOUSE TELEPHONE SYSTEM

Mr. HOYER. I have been in the President's presence at least five times over the last three weeks, when he has observed what a wonderful telephone system the White House has. Do you oversee that? If so, why do we have a President of the United States come in and say we have a 1964 technology in telephones in what arguably could be the most important communications recipient and sender in the world?

Mr. WAGNER. I don't want to sound like I am passing the buck——

Mr. HOYER. That is not you?

Mr. WAGNER. The management of the White House system is the Executive Office of the President, or the Office of Administration within it that is in charge of that.

There are some exceptions on how the regulations may work perhaps for some portion of the White House, but they will be managing their system under the delegated authorities that come through the Brooks Act through GSA. But the way the Brooks Act is also designed, the agency determines its requirements and then implements systems to meet them.

Mr. HOYER. Have you had any communications with the White House recently in the last week or so on this?

Mr. WAGNER. Not on the communications side.

Mr. HOYER. Would you be the agency that would look at this in upgrading their telecommunications capabilities?

Mr. WAGNER. It would be more the Office of Administration within the Executive Office of the President.

Mr. HOYER. I understand they are the ones that do it. Presuming they don't have the technical capability, would you be involved?

Mr. EARLY. My understanding is we would be glad to work with them, and they would be calling the shots. And their capability, in

many cases, would be such that they wouldn't come to us, but we could be there to assist or advise. But they have a great deal of wherewithal and independence and authority.

Mr. HOYER. The President was obviously amazed that the technology was so antiquated. For one thing, of course, he is a new-generation President, the first one we have had. I don't say this in a partisan sense, because I am computer illiterate, which annoys me. But when you have a President who goes into a grocery store and finds a scanner to be an amazing piece of technology, it is not surprising that he didn't find their telephone system inadequate.

Mr. Lightfoot?

CRITERIA FOR BUYING COMPUTERS

Mr. LIGHTFOOT. Thank you, Mr. Chairman.

I think Chairman Hoyer and I both share the same concerns as far as IRS is concerned. With the quantity of money that is going to be spent, we certainly want to make sure they buy something that won't be outdated next month.

Once in a former life I worked for IBM back when they used to program with wires, so I am a little bit ancient in that respect. It seems to me that normally when you go into buying computers, there are a couple of approaches to take. One is you can be fascinated with the hardware, or the proper approach is to go in and decide what kinds of programs you need to service your agency best, find the software and then the hardware which will drive it, which tends to make the most sense, I think, in making a computer purchase.

In your criteria for buying this equipment, do you have a check-off list or a list of criteria these people have to meet in terms of making these decisions? Is the priority put on the job that the computer is supposed to do rather than on the hardware? Are there any guidelines in that area?

Mr. WAGNER. I will do a short answer and then refer to Mr. McDonough.

The way the regulations are written, they lay out processes you would follow. For example, figuring out what your requirement is, you certainly don't want to begin with your requirement, I need brand X computer, this kind of capacity. That is where you get yourself into a lot of trouble, because then you design systems that are cumbersome and don't work. You begin with the requirement, look at different ways of evaluating the alternatives, try to meet it through a competitive acquisition.

The model you have, the requirement software to hardware is a good way to do it, although I hear technical experts go back and forth on how to do it, and it depends on which era they are talking about, too. But yes is the short answer.

Did you want to add to that, Frank?

Mr. MCDONOUGH. I might mention a few things. First of all, what is happening in this community is, we have gone very quickly to $100 million systems and up all across the agencies. And where we get good, strong competition in there, we can save—we find savings of 50 percent. And so if we see no competition, we see higher prices, and sometimes more.

Competition is an important part of this, because so much money is spent. The emerging process—it has been changing quite a bit in the last year or two—is that agencies are encouraged to redefine their business before they spend any money. In other words, take a look at the way you do business, can it be re-engineered, is there a different way to do the kind of work you do. And that is coming—that is sweeping in across all agencies and we are learning how to do it. We are about two years into it.

So the idea is, after you have re-engineered it and you see how you want to do the work, then start thinking about a system. And then after you have designed the system, then buy the resources you need, competitively, save that 50 percent where you can.

And then the other new thing is to implement incrementally. We used to take a big system like the tax system, redesign it, and the idea is we would drop it all in on the 1st of January, 1990, for example. We have never been successful in that approach with these big, complex systems. So the idea these days is, design the umbrella architecture after you re-engineered, and then implement piece by piece, allowing flexibility to shift and turn as you gain experience and as you proceed.

So that is the current approach that is in place now in the government. There is a lot of process.

OVERSIGHT OF FAA PROCUREMENTS

Mr. LIGHTFOOT. Do you have oversight over the FAA and their equipment procurement? Is that under your umbrella?

Mr. MCDONOUGH. We do.

Mr. LIGHTFOOT. Is it just computers?

Mr. MCDONOUGH. Computers and the local area networks systems that tie them together. We were out last week at their developmental center in Gaithersburg getting the annual update on how they are proceeding. As you know, they are having some trouble.

Mr. LIGHTFOOT. The reason I ask, what you mentioned a minute ago, Steny, about buying something off the shelf, is that there is a weather radar which there is a $34,000, $40,000 unit available, yet the FAA has opted for this $12 million research program, and a couple of our colleagues are pushing it because it is in their district.

That is a typical example where an awful lot of money is being wasted where there is off-the-shelf technology that can be used, and it basically can identify the problem. I forget what airline it was that crashed in Dallas because of the wind sheer. That was Delta. It is basically a type of Doppler radar that will identify wind sheer. Several companies have that capability today.

It makes a lot of sense to buy that now, put it into the VFWs, then transfer that equipment off to an airport of lesser use, but that got totally lost in the argument somewhere.

STATE OF IOWA FIBER OPTIC NETWORK

One final question on the IRS. When they were here the other day, we have got a bit of a parochial interest in it as well. There is a fiber-optic system in the State of Iowa, and I know you folks have been looking into some of this, and I understand some IRS people

are going out to look at that possibly next week. I guess it is the only one in the nation right now that offers some capabilities.

Have you got an update where you are in that process?

Mr. WAGNER. From the appropriations report from last year, we were directed to do a study to explore the possibilities of that fiber-optic network. Mike Corrigan has been very heavily involved in that study. Perhaps he would like to summarize where we are. We have a report due April 1st.

Mr. CORRIGAN. April 1st, yes. I think you are correct in saying it is a unique resource right now.

What the State of Iowa has done is to put in a fiber-optic network in every county in the State. The primary and initial application is distance learning and allowing the counties to have classes, college classes in remote communities without everybody having to go to the big city.

I have been out there twice, and we had a delegation the last time with Treasury, Postal Service and Veterans Affairs with us to take a look at it, and as you mentioned, the IRS is either going out this week or next week also to take a look. And I believe the Department of Agriculture has been out as well.

What potentially can be done here is to begin to pilot some applications that cover the Federal and the State and the local range of requirements, and really look at how those pieces fit together with the network that would be a very nice network if it was 1998 rather than 1993.

So you get a big head start on this process, and hopefully can address some of the issues you were talking about, where your technology has trouble catching up with where you are. In fact, we have had a lot of trouble catching up with where the technology is.

The biggest problem we have had in the study, as a matter of fact, is finding somebody whose view of the potential of the world is different than what is out there today. And what has been very useful about the network, even just breaking people's concepts, is to go look at it and go touch and feel what a network really could do in the future.

For example, the video, which is the dominant distance learning application. If you have ever seen video teleconferencing, the motion blurs and generally there is a delay between you and the person who is there at the other end. In the Iowa Network, the turnaround camera in the normal teleconferencing room, the picture on that, which is usually very good, is what you see at the other end as opposed to what you see at your end. It is essentially studio quality with zero delay. And it is an extremely attractive system that you get.

What that does is make it potentially possible for people to use that system who would be very uncomfortable with compressed video. So parole hearings, there are all kinds of applications that could be potentially used on it, we think a large range, and the kinds of things that could be done we are including in the study together with some individual agencies who have gone to a lot of depth in their particular view of what could be done.

I think the key element there is the ability to really pilot some of this re-engineering that Frank was talking about end to end, all the way down to the local level, before you go into massive imple-

mentation nationwide. I think that is really the key thing that we feel is the potential for the network.

Mr. LIGHTFOOT. I appreciate that.

One of the new things I guess they are trying because they developed some new hardware, in the high-resolution screens and the quality of it now, a doctor could be in an operating room, run into a problem, go into the network and get guys from the University of Iowa to look into it.

Anyway, thank you. I appreciate it.

Thank you, Mr. Chairman.

DEPARTMENT OF AGRICULTURE SMART CARDS

Mr. WAGNER. Mr. Chairman, Mr. McDonough had some information that might be useful to you on agriculture smart cards which relates to your IRS question.

Mr. MCDONOUGH. The Department of Agriculture has what they call a smart card and each farmer who is in the program has a smart card, and it contains on the back of it a running status of what is sold to the government at what price, at what agricultural station and so forth. It is updated each time he comes into a Department of Agriculture site selling peanuts.

And it solved all kinds of problems there. He carries it with him, he can go to any site, and his record is always with him in his pocket. It is part of what Agriculture calls the easy-access program. They are trying to make life easier for the farmer to do business with the Department of Agriculture. So if you are interested in that smart card technology, you might want to talk with some of the people at the Department of Agriculture, and we could get the names of those people.

Also, there is a smart card users group. It is managed currently by a senior executive at the Financial Management Service in the Department of Treasury. They are trying to promote the use of the kind of technology you are talking about. I will pass that on to Bill.

ADMINISTRATIVE REDUCTIONS

Mr. HOYER. We are going to move on to the Inspector General, because we are going to have a tough time getting through what we have on our plate here. We very much appreciate you being here.

The President said last night that administrative savings that are going to be reduced. We are going to be looking at this very closely. People expect us to make savings and cuts in government. I think we can do it, we want to do it, we are going to do it, in a way that is positive and not harmful to the operations of the agencies we oversee.

We are sending the message pretty clearly that we intend to cooperate fully with the President to effect those savings. I think it is a bipartisan desire. The American public want us to make ourselves leaner and equally effective, or more effective.

Thank you for your testimony.

Mr. WAGNER. Thank you very much. I appreciate the opportunity.

[Additional questions submitted for the record by the Committee and the answers thereto follow:]

GAO Report

Question. According to GAO, GSA has not been effective in exercising its Governmentwide oversight responsibilities, especially in the area of acquisition of Automated Data Processing (ADP) Systems. What is GSA doing to strengthen and improve both the quantity and quality of its oversight of agencies' ADP acquisitions? Will these actions resolve the oversight deficiencies that GAO has identified?

Answer. The GAO report citing the GSA deficiency is now nearly four years old, and the areas noted in the report have been addressed. GSA has strengthened its oversight program since that time in many ways. The Delegation of Procurement Authority (DPA) process has been redesigned into Type I, Type II and Type III acquisition reviews, so that the important, high value, mission critical cases (Type IIIs) from agencies get a comprehensive review of the entire acquisition. We have redirected IRMS staff resources committed to the DPA process to place more emphasis on these comprehensive reviews, and there has been an upgrade of the grade levels of positions in that area to attract and retain high quality Desk Officers to perform the reviews.

In the area of Information Resources Procurement and Management Reviews (IRPMRs), the number of reviews per year has increased from six to nine, and redirected IRMS staff resources have been used to create an additional review team. Grade levels of the positions have been increased to deal with the increasing complexity of the review subject matter.

Question. Do you believe that some of your oversight responsibilities could be delegated to other Federal agencies?

Answer. A substantial amount of the GSA authority for acquisitions is delegated to the acquiring agency. Today, GSA reviews and grants specific acquisition delegations on only 600–700 of the 18,000 acquisitions performed by agencies each year. Through the thresholds that are set, and then adjusted based on the agency performance as determined from the agencies' Information Resources Procurement and Management Reviews, GSA delegates more authority to those agencies with strong Information Resources Management programs in place.

Reinbursement From Other GSA Groups

Question. In fiscal year 1991, the method of funding offices and functions was changed from direct appropriations to reimbursement of services. Do other GSA groups reimburse you for services? What is the level of reimbursement in 1993?

Answer. There was no change in the method of funding for IRMS services in fiscal year 1991. IRMS has operated computing facilities on a shared, non-mandatory basis since 1984. GSA clients and a limited number of other agencies share our computer facilities. The level of reimbursement for fiscal year 1993 is projected to be approximately $58 million.

Question. Since the GSA groups are "captive", and therefore cannot use other agencies services, what incentive do you have to reduce your costs to the customer?

Answer. As noted above, IRMS' shared computing resources are not a mandatory source and must be competitive to retain the workload.

Question. What have you done to implement productivity savings and pass them on to your customers? What is the total cost reduction you have passed on to your customers since 1991?

Answer. On a continuing basis we strive to increase efficiency through consolidation of operations and maximum use of modern technology which provides ever greater price performance. Since the reimbursable program was established, the workload has increased by approximately 800 percent, while unit cost has decreased by a factor of five (equivalent processing that cost $27 in 1984 now costs $5). The program is healthy and growing, and because of the increase in workload the total costs have gone up. However, the cost effectiveness of the program is reflected by this growth in workload.

Federal Equipment Data Center (FEDC)

Question. Last year you stated that the inventory of Governmentwide general purpose ADP was to be updated in May of 1992. Was the inventory completed at that time? If so, what is the current value of general purpose ADP owned by the Federal government?

Answer. Yes, the data was gathered under the new system for the first time in May 1992.

The data supplied from the agencies was incomplete and suspect, probably due to the unfamiliarity with the new system.

Feedback was supplied to the agencies so that the November 1992 submission would be a clean, usable submission. That data is now being processed and analyzed for a report to be published in April 1993. The new value will be available at that time.

The last time the inventory value was calculated was for the fiscal year 1990 inventory. The FY 1990 Automated Data Processing Equipment (ADPE) dollar value at that time was $10,717,606,700.

Question. How many agencies have submitted the required data to complete this inventory?

Answer. All major agencies have provided the November 1991 submission. Some smaller agencies that have not yet reported are being requested to submit their data before the report is published.

Question. What is not included in this inventory?

Answer. The inventory does not include desktop computers, and peripherals, such as monitors, mice, disk drivers, laser printers, and optical character recognition (ocr) scanners.

The inventory includes the follow:

Large Central Processing Units (CPUs) that are either general-purpose of high-speed scientific computers (greater than $1 million in value).

Medium CPUs that include traditional supermini-class computers ($100,000 to $1 million).

Small CPUs supporting 2 to 32 users ($10,000 to $100,000).

Information Technology Fund

Question. What will be the estimated balance in the IT Fund at the end of fiscal year 1993? How much of this balance will be generated by Telecommunication Services and how much will be generated by ADP services?

Answer. The fund will have an estimated balance of $70.5 million at the end of fiscal year 1993. Virtually all of this balance was or will be generated from planned earnings on FTS2000 and local telecommunications services to pay for future investment in system improvements and new services. In fiscal year 1993, the telecommunications portion of the IT Fund will generate an estimated $849 million in income offset by approximately $899 million in expenses. The ADP portion of the fund will generate about $276 million in income offset by expenses of this same amount, that is, this portion of the fund is planned to break even.

Question. In 1991, your estimate was that $100 million was to be retained in the fund for future initiatives. Did you expend those funds in 1992? If so, what was purchased with these funds?

Answer. We expended approximately $32 million of the Cost and Capital Reserve funds in fiscal year 1992; $22.4 million of this amount was for FTS2000 initiatives such as for implementation of the seven to ten digit dialing plan, FTS2000 Billing Management System (FBMS), Automatic Number Identification and Price Redetermination; and $8.1 million was for access line termination charges for the local telecommunications services program. The remaining $1.2 million was for unanticipated contingencies such as legal claims paid to vendors.

Question. Is the IT Fund used to purchase accounting and financial management systems for GSA? If so, what has been the extent of the purchases?

Answer. The IT Fund is not used to pay for GSA accounting and financial management systems. The fund does pay for program-specific systems that are partially financial or financial sub-systems that support and benefit IT Fund client agencies, such as the Integrated Financial Database (IFD), which allows electronic access to income and expense information from GSA's accounting system, and FTS2000 Billing Management System.

[The justifications follow:]

I. MISSION AND RESOURCES

INFORMATION RESOURCES MANAGEMENT SERVICE RESOURCES SUMMARY
$(Thousands)

	FY 1992 Actual	FY 1993 Estimate
Appropriations:		
Operating Expenses, IRMS	$45,159	$46,419
OE, IRMS Reimbursable (obligations)	$48,314	$58,723
Information Technology Fund:		
Income	$1,050,449	$1,162,421
Expense	1,056,493	1,207,057
Gain/(Loss)	(6,044)	(44,636)
Business Volume (Obligations)	1,142,738	1,394,148
EMPLOYMENT (FTE)	2,363	2,354

The Information Resources Management Service (IRMS) provides overall direction and coordination of comprehensive governmentwide programs for the management, procurement, and use of automatic data processing, information systems, telecommunications equipment, systems and services; developing and coordinating governmentwide policies, procedures, regulations, and publications related to ADP and telecommunications activities; planning and directing programs for improving Federal records and information management practices governmentwide; and providing policy and program direction for emergency preparedness, disaster support and telecommunications security. The IRMS mission is financed through the following accounts:

Operating Expenses, IRMS, is a direct annual appropriation supporting the basic mission of the Service. This account provides for the management, procurement, and utilization of ADP, communications and office information equipment and services; and the overall management of operations designed to provide specialized services to Federal agencies in each of these fields. Appropriations are available for obligation only during the fiscal year for which they are enacted.

Operating Expenses, Reimbursable, provides ADP assistance and support to various GSA organizations and Federal agencies, on a reimbursable basis.

The Information Technology (IT) Fund, an intragovernmental revolving fund, finances the expenses of procuring, managing, and supporting the information resource requirements of the Federal Government and helps ensure that these requirements are acquired effectively and efficiently at the least cost to the

I. MISSION AND RESOURCES (Continued)

Government. The IT Fund programs provide, on a reimbursable basis, automatic data processing, telecommunications and other information technology services to the Federal Government. These include but are not limited to the provision of long distance and local telecommunications services utilizing the most advanced switched voice and data service available; secure telecommunications services to support agencies with national security activities; critical telecommunications needs of the Government during local, national and international crises; and a wide variety of ADP services which include software, hardware, office automation, acquisition support, systems analysis and programming, software definition and design of systems requirements, and multi-year leaseback of ADP equipment.

Activities within each account are discussed in greater detail in the sections following.

I. MISSION AND RESOURCES (Continued)

OPERATING EXPENSES, DIRECT
$(Thousands)

	FY 1992 Actual	FY 1993 Estimate
Federal Information Resources Management	$10,842	$10,870
External Information Services	5,358	5,899
Information Resources Procurement	8,233	9,262
GSA Information Resources Management	12,314	11,723
Regional Liaison and IRM Management	7,225	7,122
Information Security Oversight Office	1,187	1,543
OE, IRMS Direct Obligations	$45,159	$46,419
ENDOWMENT (FTE)	347	378

This appropriation provides for the overall direction and coordination of comprehensive governmentwide programs for the management, procurement, and use of automatic data processing, telecommunications, and office information equipment and services. It provides for the development and coordination of governmentwide policies, procedures and regulations pertaining to ADP, telecommunications, office information systems acquisition, management, and utilization; provides information services to the public; and provides for the overall management of operations financed through the Information Technology (IT) Fund.

1). FEDERAL INFORMATION RESOURCES MANAGEMENT -
The Office of Federal Information Resources Management develops, plans, and directs governmentwide programs, policies, and regulations governing the management, acquisition, and use of Federal information resources. The office develops and monitors Governmentwide guidance, policies and regulations; reviews Federal agencies' implementation programs; conducts long-range planning and research relating to future Government-wide information resources management needs; and coordinates the distribution of excess ADP equipment between Government agencies.

2). EXTERNAL INFORMATION SERVICES -
The External Information Services program manages and directs the operation and maintenance of Governmentwide data bases including the Catalog of Federal Domestic Assistance, the Federal Procurement Data System, and the Automatic Data Processing Equipment/Data System.

3). INFORMATION RESOURCES PROCUREMENT -
The Office of Information Resources Procurement directs, administers and manages governmentwide acquisition programs for ADP and telecommunications equipment, software services, and related items; competitively procures circuit facilities, services, terminal, and special purpose equipment; directs the development of and implements new acquisition techniques and programs for ADP and telecommunications; maintains liaison with industry associations and State, local, and foreign governments in ADP and telecommunications matters; conducts specific economic analyses required by IRMS to achieve its program objectives; represents the Government before state telephone rate commissions when proposed rate changes are determined to have a large impact on Government costs; and manages reimbursable ADP and telecommunications procurement programs financed through the Information Technology Fund.

I. MISSION AND RESOURCES (Continued)

4). GSA INFORMATION RESOURCES MANAGEMENT -
The Office of GSA Information Resources Management manages and directs the GSA-wide automated information systems program and the provision of automated information resources within IRMS.

5). REGIONAL LIAISON and IRM MANAGEMENT -
The Office of Regional Liaison and IRM Management reviews, analyzes, and provides recommendations to the Commissioner on major program policies and procedures impacting IRMS zone operations. The Office manages the plan, design, development, implementation, security and maintenance of IRMS automated information management systems. The office is directly responsible for ensuring that the Federal telecommunications system is fully accessible to the speech- and hearing-impaired community for communicating with and within the Federal government. The office is also responsible for the overall management, policy, plans, and procedures for the nationwide Federal Information Center (FIC) program. The FIC provides information on Federal agencies, programs, and services to the public and business community. The FIC will supplement its direct responses to public inquiries by providing a data base to Government Depository Libraries and other interested parties. The FIC started service to the public in 1966 and was formally established by legislation in 1978.

6). INFORMATION SECURITY OVERSIGHT OFFICE -
The system for classifying, declassifying and safeguarding national security information is based on Executive Order 12356, signed in April 1982. Under this Order, the Information Security Oversight Office (ISOO) is tasked with overseeing the governmentwide program and reporting to the President annually on its status. As of January 6, 1993, ISOO has been tasked with another program, the National Industrial Security Program (NISP). Executive Order 12829 dated January 6, 1993, establishes the NISP, a single, integrated, cohesive industrial security program to replace the many agency-specific programs currently in place. ISOO is responsible for providing policy oversight of the program on behalf of the President and the National Security Council and reporting annually to the President on the status of the NISP.

7). SERVICE DIRECTION -
This activity, through the Offices of the Commissioner; Controller; Administration and Planning; and Regional Liaison and IRM Management, plans and administers the programs of IRMS in developing overall objectives, long-range plans, comprehensive programs, and organization and operating methods necessary to accomplish established program objectives; develops policy and provides coordinated staff services in the areas of management and administrative support services, financial management and development and implementation of financial systems.

II. INITIATIVES AND ISSUES

ISSUE: Governmentwide Delegations of Procurement Authority (DPAs)

DISCUSSION: GSA's primary means of oversight and management of Government information technology acquisitions is through the review and approval of Delegations of Procurement Authority. Over 700 Agency Procurement Requests (APRs) are approved annually with a value exceeding $25 billion. Particular attention is devoted to the top 100 high dollar, mission critical, high visibility computer and telecommunications acquisitions. These acquisitions are now being tracked under a comprehensive review process, from concept to contract award and through contract closeout.

It is through the delegations and the procurement and management reviews processes that GSA seeks to enhance the overall performance of Federal agency IRM management and to increase the efficiency and effectiveness of the government's information processing systems.

The review and approval of agency IRM acquisitions addresses issues related to systems life cycle management, sharing of Federal Information Processing resources, agency-wide system planning, and the implementation of systems.

Through GSA oversight of IRM acquisitions there is a governmentwide mechanism for ensuring compliance with the laws and regulations related to IRM, including the Brooks Act and the Competition in Contracting Act (CICA). This ultimately results in the increased proficiency of agencies in the acquisition and use of systems. The actions GSA takes serve to increase competition for better prices and improved technical solutions.

The Delegations process also provides an effective check and balance to ensure agencies conduct proper procurements and that private industry is afforded an equal opportunity to compete.

ACTION REQUIRED: The high visibility and impact of this program requires continued support at the current funding levels. The impact of this program is governmentwide and felt throughout society in the increase in effectiveness of Federal programs.

ISSUE: Procurement and Management Reviews

DISCUSSION: GSA has used Procurement and Management Reviews to form the cornerstone of oversight of its Brooks Act authorities since 1980. Fifty reviews have been conducted in the ensuing years.

GSA's successful Procurement and Management Review Program has evolved such that we now conduct nine reviews per year of Federal agencies. This rate has tripled since 1989. To accomplish this increase, GSA has reprogrammed staff from other critical areas and upgraded the positions, thus ensuring the most capable resources to perform this critical function. GSA has determined that the largest 27 Federal agencies spend 99% of the IRM resources, thus systematic review of these agencies is most beneficial. Consequently, three teams conduct three reviews per year, yielding a total of 27 reviews every three years.

The reviews provide GSA with critical first-hand information on how agencies are managing their IRM resources. GSA identifies opportunities for improvement, efficiencies, economies-of-scale, and cost savings, in its reports on review results. If GSA was unable to conduct these reviews, it would eliminate our primary source of information on how

II. INITIATIVES AND ISSUES (Continued)

well agencies are managing their IRM programs. This could ultimately lead to an increase in problems, which are often costly and time-consuming. These problems include: "stove-pipe" systems which provide no ability to share data agency-wide, or between agencies; over-reliance on proprietary equipment that leads to high costs and no plans to move to an open systems environment; and inadequate attention paid to major systems during the critical implementation phase of the systems life-cycle.

ACTION REQUIRED: Continue to conduct these critical reviews.

ISSUE: Schedules Program

DISCUSSION: The Multiple Award Schedule (MAS) program is designed to provide Federal agencies with a simplified process for obtaining commercial Automatic Data Processing (ADP) and Telecommunication products and services, referred to in regulation as Federal Information Processing (FIP) Resources, at prices and other economic advantages equal to that available to large volume commercial customers. The MAS program is IRMS' largest single acquisition program, with annual sales of nearly $2 billion and savings of more than $900 million in discounts and administrative burden. The program annually receives and evaluates more than 1,500 vendor offers, and awards more than 1,000 schedule contracts.

Because of its extensive contacts with the commercial marketplace, the MAS program for FIP Resources has been classified as a high risk area susceptible to excessive prices and inadequate management. To ensure that the government receives the most cost effective method in acquiring products and services, the MAS program has gone forward with many initiatives designed to improve the effectiveness and efficiency of the contract negotiation process, and the pricing and service to our customer agencies. These include the creation and development of a government-wide, interactive electronic bulletin board, entitled the "On-Line Schedule System" (OSS), the pilot testing and evaluation of revised Discount Sales and Marketing Data (DSMD), the creation of a series of handbooks to guide vendors, customers, and government negotiators through the MAS process, and revision of the schedule contract administration process.

ACTION REQUIRED: Efforts to improve and strategically manage the program are continuing. A joint working group is being established with IRMS, Acquisition Policy, and the Federal Supply Service (FSS) for the purpose of considering procurement issues of common concern.

ISSUE: National Industrial Security Program

DISCUSSION: On January 6, 1993, the President issued Executive Order 12829, "National Industrial Security Program." The Order requires the Information Security Oversight Office (ISOO) to provide policy oversight for the National Industrial Security Program (NISP) on behalf of the President and the National Security Council and to report to the President annually on its status.

The NISP establishes a "single, integrated, cohesive industrial security program" to replace the many agency-specific programs currently in place. A major goal of the NISP is cost reductions, brought about by ending the overlaps and redundancies of existing programs.

The ISOO Director is also required to convene and chair a Policy Advisory Committee composed of representatives from Government and industry. The Secretary of Defense shall serve as executive agent under the NISP, in which capacity the Secretary shall issue a Governmentwide Operating Manual, issue

II. INITIATIVES AND ISSUES (Continued)

facility and individual security clearances, and conduct inspections of non-Government facilities. The statutory authorities of the Secretary of Energy, the Nuclear Regulatory Commission, and the Director of Central Intelligence remain in full force and effect. However, under the NISP these agency heads will delegate clearance and inspection functions to the Secretary of Defense when such delegations meet the concerns of efficiency and security. The Order leaves intact and in force that portion of Executive Order 10865 which establishes appeal rights that may arise from the denial or withdrawal of a clearance to an employee within industry. The NISP becomes operational as soon as each affected agency issues implementing regulations, which must be issued no later than 180 days after the Secretary of Defense issues the Operating Manual. The Secretary must issue the Operating Manual no later than January 6, 1994.

ACTION REQUIRED: The added responsibility created by the NISP requires additional funding above the current level.

SELECTED WORKLOAD AND PERFORMANCE MEASURES

	FY 1992 ACTUAL	FY 1993 PROGRAM
1. Federal Information Resources Management Service		
a. Number of Regulatory and FIRMR Bulletin Actions Managed	19	25
b. Number of Agency Procurement Delegations Granted	713	790
c. Number of GSBCA Protests Analyzed +++	225	220
d. Number of GSA-Conducted Agency Reviews Completed	6	9
e. Number of Equipment Transfer Requests Processed	11	19
f. Average Number of Days Required to Process Agency Procurement Delegations Requests +++	14	20
2. External Information Services		
a. Federal Equipment Data Center		
(1) ADP equipment systems requests processed	53	60
(2) Number of published reports processed	1	1
(3) Number of input transactions processed	54,812	70,000
b. Federal Assistance Program		
(1) Number of users	350	400
(2) Number of searches	6,400	6,600
c. Federal Procurement Data Center		
(1) Number of reports published	1	1
(2) Number of special reports processed	439	445
(3) Number of non-revenue inquiries processed	113	100
(4) Number of agency transactions (SF-279) processed	502,136	500,000
3. Information Resources Procurement		
a. Procurements for Agencies		
(1) Contracts awarded		
ADP		
Number per year	785	808
$ Millions in sales	$1,634	$1,683
Telecommunications		
Number per year	231	238
$ Millions in sales	$256	$264
(2) Offers processed		
ADP - Number per year	1,017	1,048
Telecommunications - Number per year	296	305

+++Identified to OMB as performance measures

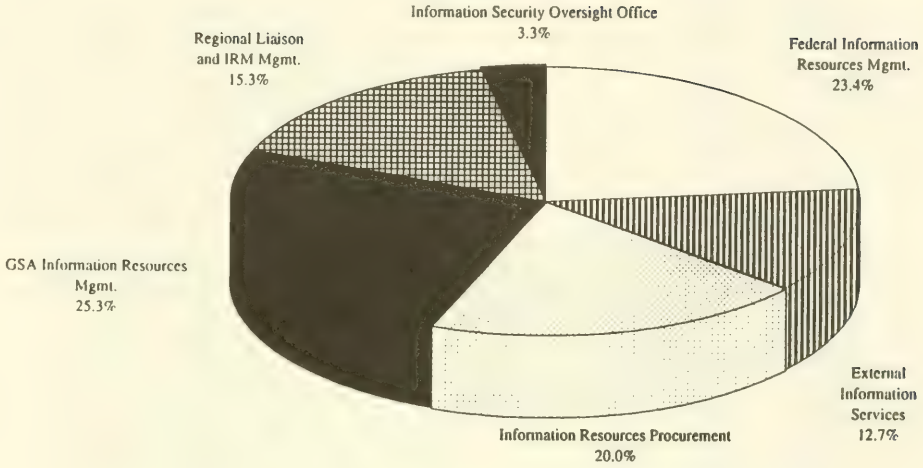
SELECTED WORKLOAD AND PERFORMANCE MEASURES

	FY 1992 ACTUAL	FY 1993 PROGRAM
3. Information Resources Procurement (con't)		
a. Procurements for Agencies (con't)		
(3) Contracts administered		
ADP		
Number per month	785	808
$ Millions cumulative/month	$1,634	$1,683
Telecommunications		
Number per month	231	238
$ Millions cumulative month	$256	$264
b. Procurements for GSA		
(1) Contracts awarded		
*Number	14	30
Value in millions	$365	$29
(2) Purchase delivery orders		
Number	1,204	1,600
Value in millions	$58	$50
(3) Contracts administered		
*Number	42	40
Value in millions	$678	$690
4. GSA Information Resources Management		
a. Office Automation Systems Reviews	62	64
b. Office Automation for Periodic Publications and Special Notices - Number of Issues/Notices	30	24
c. Quality Assurance Reviews - Number of Reviews	10	10
d. Technical Support Requests	10,519	18,850
5. Regional Liaison and IRM Management		
a. Number of Direct Public Inquiries (millions)	1.5	1.5
b. Number of Copies of Data Base Distributed	0	1,000
6. Information Security Oversight Office		
a. Agency Inspections	150	150
b. Review of Agency Regulations	140	140
c. Suggestions, Complaints, Informal Investigations	180	180
d. Statistical Reports Reviewed	210	210
e. Special Projects and Studies	50	50
f. Training and Educational Activities	220	220

*Decrease in FY 1992 figures for "Contracts Awarded" and "Contracts Administered" believed to be due to requirements being held in anticipation of GSAS.

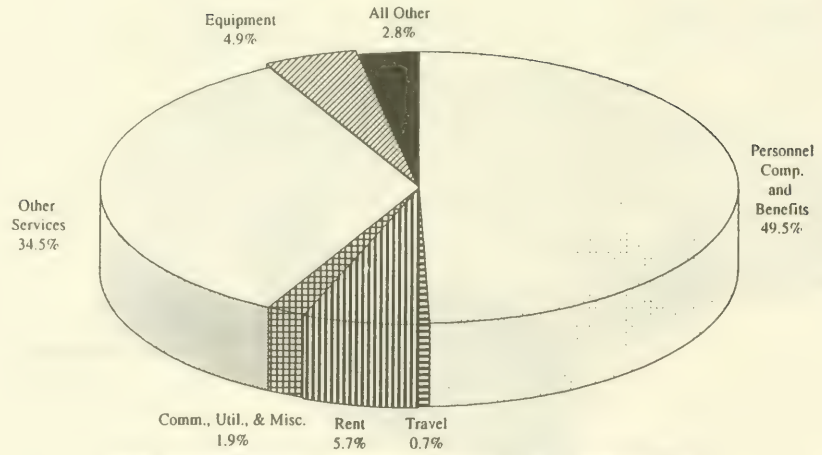
INFORMATION RESOURCES MANAGEMENT SERVICE
Operating Expenses (Direct Only)

FY 1993
OBLIGATIONS BY ACTIVITY
TOTAL --- $46,419,000



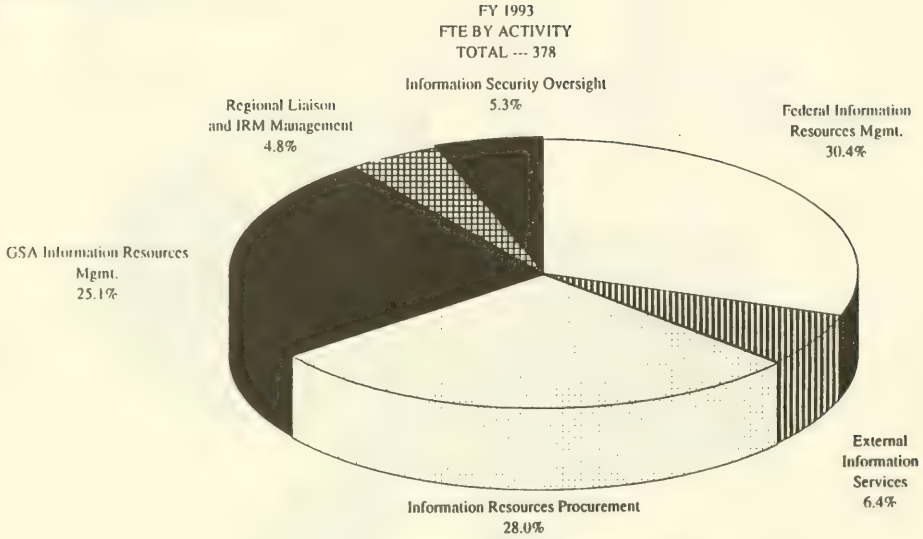
Activity	Obligations $(Thousands)	Percent
Federal Information Resources Mgmt.	$10,870	23.4%
External Information Services	5,899	12.7%
Information Resources Procurement	9,262	20.0%
GSA Information Resources Mgmt.	11,723	25.3%
Regional Liaison and IRM Management	7,122	15.3%
Information Security Oversight Office	1,543	3.3%
TOTAL	$46,419	100.0%

FY 1993
OBLIGATIONS BY CATEGORY
TOTAL --- $46,419,000



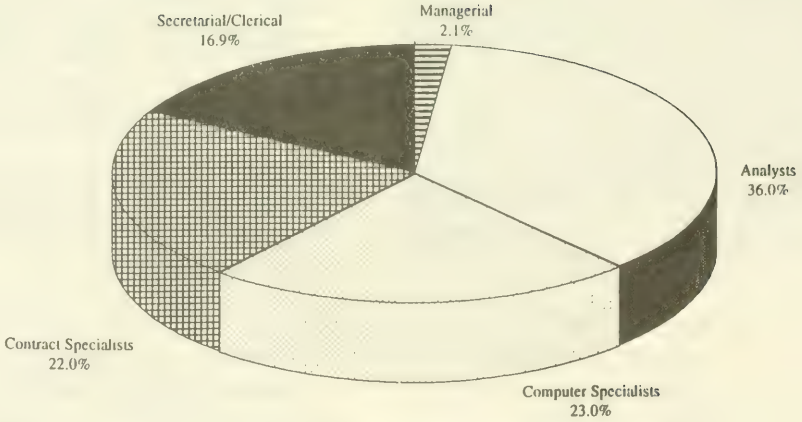
Category	Obligations $(Thousands)	Percent
Personnel Compensation and Benefits	$22,999	49.5%
Travel	309	0.7%
Rent	2,659	5.7%
Communications, Utilities & Misc.	875	1.9%
Other Services	16,008	34.5%
Equipment	2,256	4.9%
All Other	1,313	2.8%
TOTAL	$46,419	100.0%

INFORMATION RESOURCES MANAGEMENT SERVICE
Operating Expenses (Direct Only)



Activity	FTE	Percent
Federal Information Resources Mgmt.	115	30.4%
External Information Services	24	6.4%
Information Resources Procurement	106	28.0%
GSA Information Resources Mgmt.	95	25.1%
Regional Liaison and IRM Management	18	4.8%
Information Security Oversight Office	20	5.3%
TOTAL	378	100.0%

FY 1993
SUMMARY OF EMPLOYMENT
TOTAL --- 378



Category	FTE	Percent
Managerial	8	2.1%
Analysts	136	36.0%
Computer Specialists	87	23.0%
Contract Specialists	83	22.0%
Secretarial/Clerical	64	16.9%
TOTAL	378	100.0%

I. MISSION AND RESOURCES (Continued)

OPERATING EXPENSES, REIMBURSABLE
$(Thousands)

	FY 1992 Actual	FY 1993 Estimate
Federal Information Resources Management	$432	$885
External Information Services	19	19
GSA Information Resources Management	47,863	57,819
OE, IRMS Reimbursable (Obligations)	$48,314	$58,723
EMPLOYMENT (FTE)	235	235

Section 601 of the Economy Act of 1932, as amended, provides basic authority for reimbursable services to be performed by Government agencies. The Information Resources Management Service (IRMS) contains six reimbursable sub-programs to provide ADP assistance and support to various GSA organizations and Federal agencies.

1). FEDERAL INFORMATION RESOURCES MANAGEMENT - The Office of Federal Information Resources Management has three underlying reimbursable programs:

Agency Liaison Officer Program - The Agency Liaison Officer (ALO) Program is designed to enhance agencies' understanding of technological alternatives and regulatory requirements, and to promote more effective acquisition and application of information technology through such major programs as Go-For-12 and Trail Boss. The FY 1993 reimbursable travel requirements for the ALO program are estimated at $15,000. This program level will allow IRMS personnel to provide guidance and assistance to those agencies implementing Governmentwide policies.

Trail Boss Program - The Trail Boss program is an outgrowth of the Go-For-12 Study effort wherein the assignment of a single acquisition manager with responsibility and accountability for all aspects of the acquisition will substantially improve the information technology acquisition process. The FY 1993 estimate of $620,000 will provide reimbursable funding to carry out four Trail Boss Training Seminars. These two week seminars target future Trail Bosses and provide an intensive educational experience which covers business behavior, the acquisition process, and post-procurement issues. The Trail Boss Training Program is also responsible for the development of the Trail Boss Interagency Committee. The Committee meets monthly to allow a network of Trail Bosses to exchange critical information on the management of information technology acquisitions.

I. MISSION AND RESOURCES (Continued)

Information Resources Management Conference (IRMCO) - The Information Resources Management Conference covers the broad IRM policy and technology spectrum of ADP, telecommunications and records management. The FY 1993 estimate of $250,000 will provide funding for the 32nd annual IRM Conference. For the past six years, over 300 senior-level Federal information executives have come to learn about new developments and to discuss various IRM issues with their colleagues.

2). EXTERNAL INFORMATION SERVICES - External Information Services has two underlying reimbursable programs that provide reimbursable services to the public and private sector.

Federal Equipment Data Center - The Federal Equipment Data Center (FEDC) operates an Automated Data Processing Equipment System consisting of a Governmentwide inventory of general purpose data processing equipment. Federal agencies must report summary data semiannually on computers only. The Center utilizes its data base to design and produce special computer reports for the public and private sector. Reimbursable income is estimated at $2,000 for FY 1993.

Federal Domestic Assistance Catalog Staff - The Federal Program Information Act (P.L. 95-220 as amended by P.L. 98-169) requires GSA to publish the Catalog of Federal Domestic Assistance, the Formula Report to Congress, and to update and maintain the Federal Assistance Programs Retrieval Systems (FAPRS). The staff develops, on a reimbursable basis, special reports for those seeking information in FAPRS and the Catalog. Reimbursable income is estimated at $17,000 for FY 1993.

3). GSA INFORMATION RESOURCES MANAGEMENT - The Office of GSA Information Resources Management provides on a reimbursable basis information processing, data communications, networking, and end user technical and program support services for all GSA organizations whose level of activity does not warrant a full-time ADP staff, or those who require special support. Consistent with OMB Circular A-130, a "chargeback" system has been implemented which recovers costs for these resources and services.

The cost of the Shared Information Processing, Data Communications and Networking Resources Program in FY 1993 is estimated to be $57,819,000. These costs include such items as hardware, software, supplies, personnel, space charges, and contract services such as page printing and microfiche preparation. Unique charges are billed to individual users where the service is solely for that user, such as dedicated circuits or special form paper stock.

II. INITIATIVES AND ISSUES

ISSUE: GSA Internal Reimbursable Information Processing and Data Communications Services

DISCUSSION: The Reimbursable Information Processing and Data Communications services provide a full range of these services to internal GSA clients. The information processing services are non-mandatory and fully reimbursable, while the data communications services are mandatory and also fully reimbursable. These services provide 24 hour services to mission critical activities nationwide. Services range from operating computer systems supporting on-line applications for thousands of customers, to an open systems compliant networking environment from the desktop to the computer system of choice, to field technicians providing a full range of technical support services to clients.

Current trends indicate that requirements for services will continue to increase due to the tremendous growth in automated activities. The data communications services have grown to serve thousands of desktop devices with network traffic expected to eclipse one trillion characters of information in 1993. Greatly improved information processing and data communications resources are now available through a recently competed contract, which provides for a common information architecture for GSA elements. GSA has recently established a local area backbone network that interconnects local area networks within a building and between buildings. GSA has also recently implemented an agencywide Electronic mail system linking over 7,500 GSA employees with each other and the Federal community.

The services of this program are dependent on a balanced integration of information processing and data communications functions and services provided to GSA elements. Previous streamlining initiatives have significantly improved the efficiency of resources and services. The demands of customer organizations can only be met if the resources are available for the program to perform day to day operations as well as to develop and implement a full range of modern services based on emerging technologies.

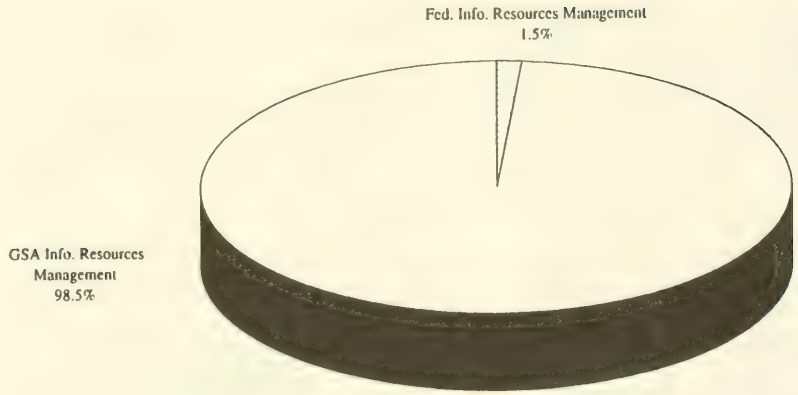
ACTION REQUIRED: Continue to provide a modern, efficient infrastructure necessary to support open systems applications such as Electronic Data Interchange and to better leverage scarce resources.

SELECTED WORKLOAD AND PERFORMANCE MEASURES

	FY 1992 ACTUAL	FY 1993 PROGRAM
GSA Information Resources Management		
GSA Internal Shared Computer Resources		
1. Unisys A17 Job Steps (000)	3,200	3,375
2. Backbone Network Connected Capacity (Total Connect Baud) (000)	7,700	9,400
3. On-Line Backbone Network Devices	5,253	7,000
4. Bull DPS 8000 Memory Use (millions of seconds)	150,000	157,500
5. Unisys 2200 PIRS Count	60,000	65,000
6. ISOD Program Reviews	11	11
7. Wide Area Network Traffic (billions of characters)	875	1,000
8. Electronic mail users	7,549	8,500

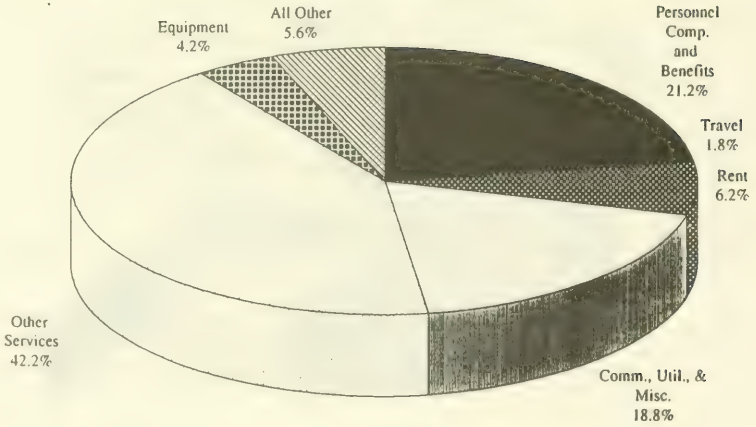
INFORMATION RESOURCES MANAGEMENT SERVICE
Advances and Reimbursements

FY 1993
OBLIGATIONS BY ACTIVITY
TOTAL --- $58,723,000



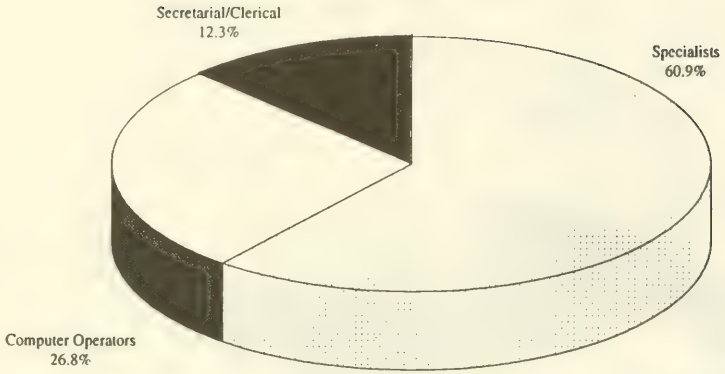
Activity	Obligations $(Thousands)	Percent
Federal Information Resources Management	$885	1.5%
External Information Services	19	0.0%
GSA Information Resources Management	57,819	98.5%
TOTAL	$58,723	100.0%

FY 1993
OBLIGATIONS BY CATEGORY
TOTAL --- $58.723.000



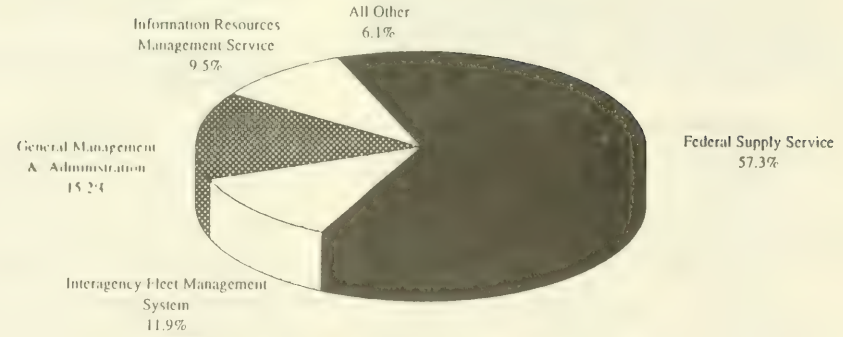
Category	Obligations $(Thousands)	Percent
Personnel Compensation and Benefits	$12,457	21.2%
Travel	1,063	1.8%
Rent	3,655	6.2%
Communications, Utilities & Misc.	11,036	18.8%
Other Services	24,714	42.2%
Equipment	2,486	4.2%
All Other	3,312	5.6%
TOTAL	$58,723	100.0%

FY 1993
SUMMARY OF EMPLOYMENT
TOTAL --- 235



Category	FTE	Percent
Specialists	143	60.9%
Computer Operators	63	26.8%
Secretarial/Clerical	29	12.3%
TOTAL	235	100.0%

FY 1993
SHARED INFORMATION PROCESSING
DATA COMMUNICATIONS NETWORK
REQUIREMENTS BY MAJOR USER
TOTAL --- $57,819,000



Category	Obligations $(Thousands)	Percent
Federal Supply Service (FSS)	$33,130	57.3%
Interagency Fleet Management System (IFMS)	6,880	11.9%
General Management & Administration (GM&A)	8,789	15.2%
Information Resources Management Service (IRMS)	5,493	9.5%
All Other	3,527	6.1%
TOTAL	$57,819	100.0%

I. MISSION AND RESOURCES (Continued)

INFORMATION TECHNOLOGY FUND, IRMS
$(Thousands)

	FY 1992 Actual	FY 1993 Estimate
FTS2000 Program	$554,316	$589,383
Local Telecommunications Services Programs	260,531	324,358
Information Security Management Program	32,701	33,181
National Security Emergency Preparedness Program	1,478	1,693
Multiple Awards Schedules Program	234	250
Federal Data Processing Centers Program	83,802	176,357
Federal Information Systems Support Program	203,471	261,363
Equipment Lease Program	6,205	7,563
Total Obligations	$1,142,738	$1,394,148
Total Income	$1,050,449	$1,162,421
Total Expenses	$1,056,493	$1,207,057
Net Gain/(Loss)	-$6,044	-$44,636
EMPLOYMENT (FTE)	1,783	1,741

The Information Technology (IT) Fund finances, on a reimbursable basis, the following governmentwide information resources management assistance programs:

a. FTS2000 Program - Long distance telecommunications services are provided through the Federal Telecommunications System 2000 (FTS2000) program which offers the Federal Government low-cost, state-of-the-art, integrated voice, data, and video telecommunications. The mission of the Office of FTS2000 is to provide leadership, policy, program direction, and oversight to ensure the provision of a timely, high quality, innovative and cost-effective governmentwide program for intercity telecommunications services.

FTS2000 program services are provided to more than 1.5 million users through two multi-billion dollar ten year contracts that were awarded to AT&T and Sprint in December 1988 to replace the 25 year-old FTS network. AT&T is assigned approximately 60 percent of the services, while Sprint is assigned the other approximate 40 percent. The contracts provide for "services" rather than equipment. GSA's role is to oversee and manage the provisioning of those services. The transition of voice service from the old FTS to FTS2000 was completed in June 1990.

b. Local Telecommunications Services - The objective of this program is to operate consolidated telephone systems that provide

I. MISSION AND RESOURCES (Continued)

INFORMATION TECHNOLOGY FUND, IRMS
(Continued)

effective and economical local service to Federal agencies, and procure competitively cost advantageous telephone services and equipment. This includes the program areas of Telecommunications Support Contract (TSC) and the Purchase of Telecommunications and Services (POTS) contracts. Also of critical importance is the Washington Interagency Telecommunications System (WITS) that replaces a selected portion of the Federal community's telephone systems in the Washington, D.C., metropolitan area with one integrated voice and data transmission facility. In addition, the Aggregated Systems Procurement (ASP) program will consolidate systems into single procurement actions which are designed to achieve economies of scale and cost stability for systems in major metropolitan areas. The ASP will replace existing tariffed systems, as well as expiring competed systems, with state-of-the-art technology.

c. Information Security Management (ISM) Program - This program provides for an effective communications security program and worldwide support to all national security, diplomatic, Department of Defense (DOD) military missions and civilian agencies as prescribed by the objectives of the U.S. Communications Security Plan. The two major activities in this area are the Communications Security (COMSEC) services and the Nationally Funded Support Services (NFSS). These programs provide secure voice and data communications for the President, members of Congress, Federal civilian agencies and selected DOD activities.

d. National Security Emergency Preparedness (NSEP) Programs - These programs ensure that IRMS supports governmentwide national security and domestic emergency preparedness plans and that the critical telecommunications needs of the Government are available during local, national, and international crises. In addition, these programs provide telecommunications support to the Federal Emergency Management Agency and other agencies in the emergency and major disaster programs.

e. Multiple Award Schedules Program (MASP) - This program provides the contractual vehicle for Federal agencies to acquire services from private sector vendors participating in certain GSA multiple award schedule contracts. In recent years, the only active program under this activity has been the Teleprocessing Services Program. The Teleprocessing Services Program was terminated effective September 30, 1990. Close out activity is expected to continue through FY 1993.

f. Federal Data Processing Centers (FDPC) Program - There are three FDPC's, described as follows: (1) Federal Computer Acquisition Center (FEDCAC). FEDCAC, located in Lexington, MA, competitively acquires large dollar value (i.e., life cycle cost greater than $100 million) hardware, systems software, and associated services such as maintenance, training, and systems analyst support for client agencies. FEDCAC helps agencies with requirements definition, development of specifications and contractual terms and conditions, preparation of technical and cost evaluation criteria, development of benchmarks and live test demonstrations, development of acquisition documentation including the complete request for proposals (RFP), and validation and evaluation of offeror proposals. (2) Federal Systems

I. MISSION AND RESOURCES (Continued)

INFORMATION TECHNOLOGY FUND, IRMS
(Continued)

Integration and Management Center (FEDSIM). FEDSIM, located in Falls Church, VA, delivers a wide range of services to clients worldwide including support in the areas of FIP resources acquisition, systems integration, software management, information technology facilities management, ADP security, office systems, local area network implementation, and networking. This support includes IRM planning, defining and documenting requirements, and designing, developing, acquiring, and managing automated information systems. (3) Federal Procurement Data Center (FPDC). The FPDC, located in Washington DC, collects and disseminates governmentwide data regarding Federal procurement activities.

g. Federal Information Systems Support Program (FISSP) - FISSP, with offices coast to coast, provides Federal agencies technical, contractual, and administrative support in acquiring System Definition, Design, and Requirements Analysis services, Business and Scientific Software Programming (development, maintenance, and conversion) services, Computer Security Services and Risk Analysis services, and Facility Management (including LAN management, the integration as well as the operation of computer systems and networks, and data capture and retrieval) services.

h. Equipment Lease Program - This program finances the multi-year lease or purchase of ADP equipment by the IT Fund for subsequent leaseback to Federal agencies. No new activity is planned for this program.

II . INITIATIVES AND ISSUES

ISSUE: Aggregated Systems Procurement (ASP)

DISCUSSION: The Aggregated Systems Procurement is a complex acquisition which will replace existing telecommunications service and systems located outside the Washington, D.C., metropolitan area that are outdated or have expiring contracts. The procurement initiative consolidates existing service areas into larger geographic areas for single competitive procurements. The ASP program will provide state-of-the-art digital voice and data telecommunications service. Enhanced services will be provided to Federal agencies at approximately 94 cities, 272 locations, and initially serve approximately 180,000 telephone lines.

In addition to the Federal mandate to compete for services, the ASP is expected to achieve economies of scale through aggregation. The Federal work force manages large amounts of complex and time-sensitive information. The availability of highly reliable integrated digital voice and data systems is critical for the efficient and effective conduct of Federal business. Most of the present systems employ old technology and are not capable of providing the required services. Consequently, agencies may be impeded in responding to the public, and internal Government transactions could be affected. Leading edge technologies such as the Integrated Services Digital Network (ISDN) will introduce a host of features and functions previously unavailable. The ASP solicitations provide for the "latest in design and in current production." In addition, a technology refreshment clause in the solicitation provides for future enhancements/upgrades consistent with new products/services similar to those under contract.

Of the nine procurements, two contracts have been awarded. The Pacific II ASP servicing the states of Idaho, Arizona, Washington, and Oregon was awarded January 3, 1992. The Eastern II serving the states of Maryland, West Virginia, and Virginia was awarded July 14, 1992. The remaining seven procurements have all completed the complex initial evaluation phase which constitutes more than 50 percent of the acquisition cycle. Five procurements have entered into negotiations. All seven are projected to be awarded during the second, third, and fourth quarters of FY 1993.

The first two ASP contracts awarded, Pacific II and Eastern II, demonstrated estimated savings over existing costs of 5.6 and 17.9 percent, respectively. Savings in this range are expected in the remaining seven ASP acquisitions. It is expected that future savings for similar service such as business line rates, tariffed rates, etc. will be realized based upon trends exhibited in higher costs for these services. Of equal or greater significance, the new systems will support the delivery of the new digital telecommunication services that are critical to the effectiveness of the Federal government.

ACTION REQUIRED: Continue the initiative to modernize the telecommunications infrastructure with the acquisition of current technology through the Aggregated Systems Procurement.

ISSUE: Information Security Support Services

DISCUSSION: The Information Security Management Division (ISMD) provides a full range of information security services to government activities conducting classified and sensitive national security, diplomatic and military missions. Support is also provided to friendly governments through international agreements. The program is nonmandatory, fully reimbursable providing 4 hour emergency response to mission critical systems at 2700 worldwide locations.

II. INITIATIVES AND ISSUES (Continued)

Services range from field technicians performing on-site system restoral to a highly trained engineering staff performing systems/network design, logistics planning, systems administration, electronic key management and distribution, and project management. These services and capabilities are inherently governmental functions. A recent security study concluded that these services should not be contracted out and that the ISMD is a national asset.

Current trends indicate requests for service are expected to continue to increase due to the tremendous growth in the telecommunications arena. Federal "downsizing" initiatives require agencies to direct their diminishing resources towards mission capabilities. Consequently, agencies have increasingly turned to GSA to meet their critical security needs. ISMD must be in a position of meeting ever increasing demands from clients with a stable resource base.

The services of this program are dependent on a balanced integration of technical and support functions, provided to multiple agencies. Previous Most Efficient Organization (MEO) and streamlining initiatives have significantly reduced resources and infrastructure. Requests for service have increased an average of 16% the past three years. However, due to resource limitations, requests are being turned down selectively to maintain the quality and timeliness of ISMD services. The demands of client agencies for program critical support services can only be met if resources are available for the program to perform day to day operations as well as develop and implement a full range of security offerings based on emerging technologies.

ACTION REQUIRED: Continue to respond to agency demands and act in the best interest of the Government.

ISSUE: Federal Computer Acquisition Center (FEDCAC)

DISCUSSION: IRMS' Office of Technical Assistance (OTA) is in the final stages of implementing FEDCAC. With the de-activation of the Air Force Computer Acquisition Center (AFCAC), GSA expanded its information resources support services to Federal agencies with the establishment of a central automated data processing acquisition organization similar to AFCAC. The new FEDCAC organization, which will remain in Lexington, Massachusetts, has been built around a core of professionals from AFCAC experienced in acquisition management, contracting, systems technology, cost analysis, and legal review.

FEDCAC was established around 3 acquisition teams. Each team is projected to accomplish 2 major computer system acquisitions per year. Success in acquisition is measured in three ways: cost of goods acquired, timeliness of acquisition, and efficiency of operations. FEDCAC awards are projected to average 40 to 70 percent below GSA Schedule or list price at substantially better terms. A 40 percent discount off schedule is as good or better than prices achieved in large procurements conducted by agencies. The average time from when a customer agency "signs off" on the specifications to contract award, including time lost to protests, is projected at 13 months, which is 25 to 50 percent faster than a typical agency procurement. These efficiencies translate

II. INITIATIVES AND ISSUES (Continued)

directly into millions of dollars in savings to client agencies, an estimated $10 million per acquisition. This is based on a projected average of $100 million per acquisition and a minimum 10 percent savings over what agencies would pay. FEDCAC's current potential contract dollar value is over $1 billion. The FEDCAC organization will become fiscally self-sufficient in FY 1993, generating approximately $3 million in FY 1993 income while conducting 6 acquisitions.

ACTION REQUIRED: Continue to proceed with planned projects to realize potential for Government savings and timely procurement cycles for major ADP acquisitions.

ISSUE: Drop-in technology

DISCUSSION: IRMS is implementing a drop-in technology program for mainframe computer systems and peripherals to make computer acquisition easier for our clients. IRMS initiated this program in response to the length of time it takes, often 12-24 months, to acquire off-the-shelf technology. When asked, several agencies expressed interest to IRMS for an umbrella contract that would allow for simplified acquisition of mainframe processors. IRMS proposes to streamline the acquisition of commercial hardware and software in the Government by establishing fully competitive non-mandatory Governmentwide Indefinite Delivery, Indefinite Quantity (IDIQ) contracts. The initial contracts will be for 370-architecture (IBM)-compatible mainframe processors.

There are three types of benefits to this program: 1) Agencies will save the expenses of conducting individual procurements; 2) Agencies will be able to acquire needed computer capacity in a more timely manner; and 3) Agencies should be able to acquire technology more cheaply because of anticipated large discounts. These benefits translate into direct dollar savings and more efficient program management by agencies. The initial contract is a prototype. A primary objective for the prototype contract is simplicity and tractability. The drop-in concept is innovative in several respects, and it is important to minimize complexity while the innovative aspects are tested and proved in the first contract cycle. IRMS will manage the contract following award and place orders for agencies.

IRMS investigated the feasibility of an umbrella contract as a first step in developing the drop-in technology program. The project has developed to the point where copies of a draft RFP have been mailed to more than 70 vendors and to Government IRM officials. A data base is being established to track all questions and comments received in response to the draft RFP, and any actions taken as a result.

ACTION REQUIRED: The formal RFP must be distributed, proposals received and evaluated, and the contract awarded.

II. INITIATIVES AND ISSUES (Continued)

ISSUE: Manage the joint study of the Iowa Communications Network

DISCUSSION: In the committee report language accompanying the Fiscal Year 1993 Appropriation Bill for Treasury, Postal Service, and General Government, the GSA, Postal Service, and the Department of Treasury are required to undertake a study of the Iowa Communications Network to seek ways in which the federal government can access the network, determine the benefits for Iowa-based federal agencies to participate in the network, and detail the projected costs for federal participation. The Committee is also interested in the potential uses of the network to help essential public services provided by local, state, and federal agencies. Completion of the report is required by April 1, 1993. To avoid duplication of efforts and maximize the use of available resources, GSA, Postal Service, and the Department of Treasury reached an agreement to conduct a joint study, through an interagency working group headed by GSA's IRMS Office of Telecommunications Services. Six other federal agencies have expressed interest in participating in the study. The study will likely focus on potential applications to enhance service in the areas of health care, education, medical research, information/benefits distribution, criminal justice, and law enforcement.

The initial meeting of the working group was held on November 9, 1992. The participating agencies have agreed to look into potential applications within their respective agencies for consideration in the study. Participating agencies are in the process of developing applications lists. After compiling the lists, in-depth interviews will be conducted with the agencies to determine the support and cost requirements for deploying those applications on the Iowa Communications Network.

ACTION REQUIRED: Continue with the effort to complete a report on the joint study by April 1, 1993.

SELECTED WORKLOAD AND PERFORMANCE MEASURES

	1992 Actual	1993 Program
1. FTS2000 Services		
a. Number of FTS2000 calls (millions).....1/	739	750
b. Number of FTS2000 call minutes (millions).....1/	3,232	3,300
c. Percent of time contractor meets scheduled service order due date+++ (Goal 95 percent).....	98%	95%
d. Number of switched voice service troubles reported per 100,000 calls+++ (Goal 10 or less).	5	10
e. Growth in voice service, dedicated transmission service, packet switched service, and video service usage+++.....2/	$480m	$513.8m
f. Cost per minute of switched voice service (SVS) compared to commercial equivalent+++.....3/		(less than overall commercial equivalent)
2. Local Telecommunications Services		
a. Average monthly line rate+++.....	$28.56	$29.29
Percent savings compared to equivalent commercial rate+++.....	35.0%	35.3%
b. Number of telephone lines (Local Service only).....	561,818	590,560
c. Number of consolidated systems.....	331	339
d. Telecommunications Support Contracts Volume of Business ($000).....4/	9,898	18,650
e. Purchase of Telecommunications and Services Volume of Business ($000)+++.....	31,413	36,583
Percent savings compared to the open market+++.	41%	41%

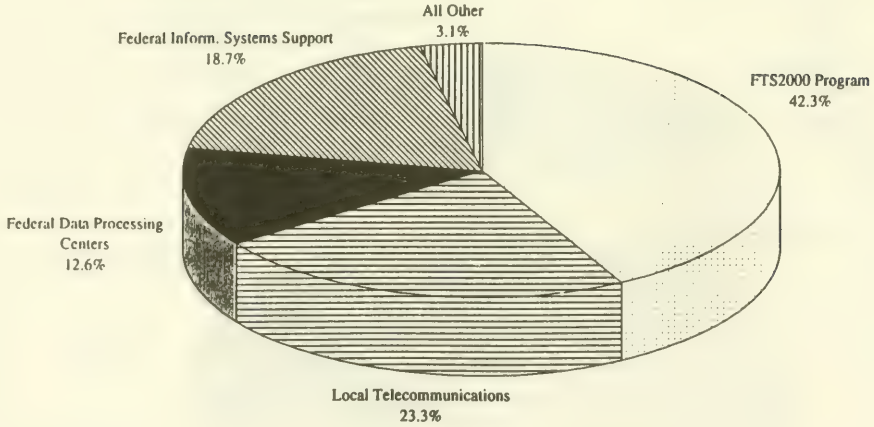
1/ Switched voice service estimates may fluctuate due to customer demand, and would significantly increase if new users are brought onto the networks.
2/ FY 1993 estimate reflects originally anticipated 12 percent price reduction as a result of Price Redetermination/Service Reallocation.
3/ FY 1993 will be the first time this performance measure has been reported on.
4/ Includes intrafund transfers.
+++Identified to OMB as performance measures

SELECTED WORKLOAD AND PERFORMANCE MEASURES

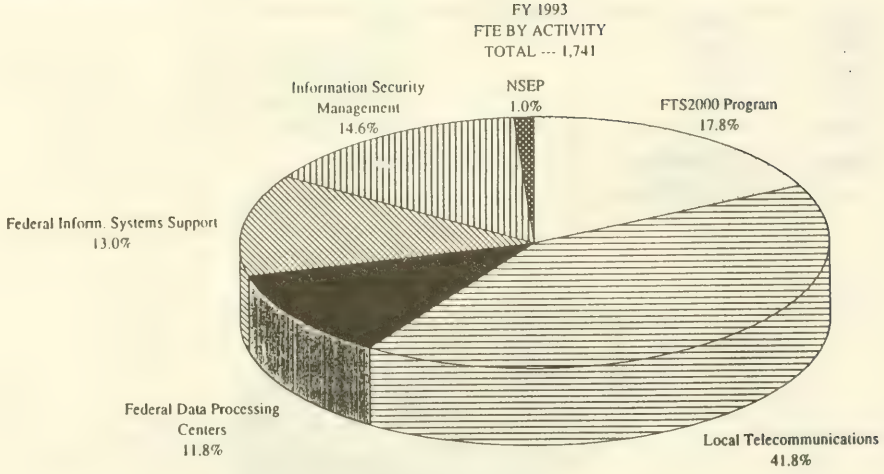
	1992 Actual	1993 Program
3. Information Security Management		
a. Number of service requests.....	33,000	39,600
b. Percent of responses to restore client's mission critical, secure communications that meet the goal of six hours+++.....	87%	93%
4. Federal Data Processing Centers (FDPC) Program		
a. Office of Technical Assistance:		
(1) Sales ($000).....	83,670	75,000
(2) Productivity.....	75%	75%
(3) Contract Awards ($000).....	64,096	155,000
(4) No. of clients supported		
FEDCAC.....	6	6
FEDSIM.....	414	460
b. Federal Procurement Data Center		
(1) Number of agency transactions (SF-278) processed.....	502,136	500,000
(2) Number of special reports processed.....	439	445
(3) Number of reports published.....	1	1
5. Federal Information Systems Support Program		
a. Number of contracts.....	16	16
b. Volume of business ($000)		
(1) ADP Business Applications.....	76,000	76,000
(2) ADP Facility Operations.....	53,000	57,000
(3) ADP Software Definition/Design.....	15,000	20,000
(4) ADP Scientific/Engineering Applications...	38,000	39,000
(5) Computer Security.....	3,000	3,000
TOTAL+++.....	185,000	195,000
c. Number of basic task orders and modifications negotiated.....	1,843	1,803
6. Equipment Lease Program		
Total active leases.....	1	1

+++Identified to OMB as performance measures

FY 1993
OBLIGATIONS BY ACTIVITY
TOTAL --- $1,394,148,000

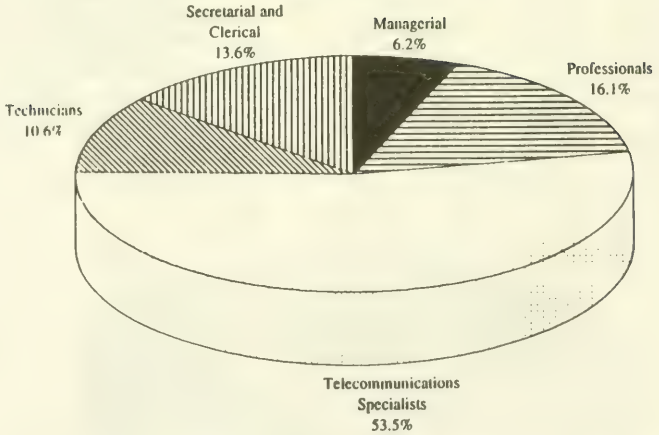


Activity	Obligations $(Thousands)	Percent
FTS2000 Program	$589,383	42.3%
Local Telecommunications Services	324,358	23.3%
Federal Data Processing Centers	176,357	12.6%
Federal Information Systems Support	261,363	18.7%
Other Programs	42,687	3.1%
TOTAL	$1,394,148	100.0%



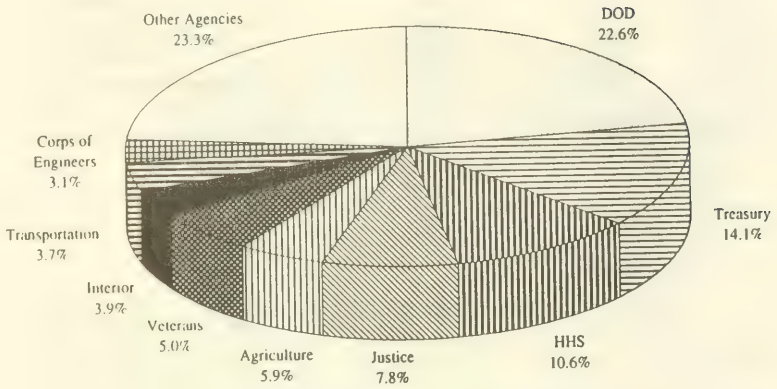
Activity	FTE	Percent
FTS2000 Program	310	17.8%
Local Telecommunications Services	726	41.8%
Information Security Management	255	14.6%
National Security Emergency Preparedness	17	1.0%
Federal Data Processing Centers	206	11.8%
Federal Inform. Systems Support	227	13.0%
TOTAL	1,741	100.0%

FY 1993
SUMMARY OF EMPLOYMENT
(Number of Workyears)
TOTAL --- 1,741



Category	FTE	Percent
Telecommunications Specialists	932	53.5%
Professionals	280	16.1%
Secretarial/Clerical	237	13.6%
Technicians	184	10.6%
Managerial	108	6.2%
TOTAL	1,741	100.0%

Major Customers of the Information Technology Fund
by Their Percentage of Total FY 92 Sales



Customer	Obligations $(Thousands)	Percent
Department of Defense	237,766	22.6%
Department of Treasury	147,945	14.1%
Department of Health & Human Resources	111,570	10.6%
Department of Justice	81,757	7.8%
Department of Agriculture	62,037	5.9%
Department of Veterans Affairs	52,863	5.0%
Department of Interior	40,589	3.9%
Department of Transportation	38,924	3.7%
Corps of Engineers, Civil	32,124	3.1%
Other Agencies	244,874	23.3%
TOTAL	1,050,449	100.0%

THURSDAY, FEBRUARY 18, 1993.

OFFICE OF INSPECTOR GENERAL

WITNESSES

WILLIAM R. BARTON, INSPECTOR GENERAL
EDWARD F. HEFFERON, DEPUTY INSPECTOR GENERAL
WILLIAM E. WHYTE, JR., ASSISTANT INSPECTOR GENERAL FOR AUDITING
JAMES E. HENDERSON, ASSISTANT INSPECTOR GENERAL FOR INVESTIGATIONS

INTRODUCTION

Mr. HOYER. We are pleased to have you here.

You may proceed in any manner you deem appropriate. We will include your statement in the record.

Mr. BARTON. I would like to submit a statement for the record, Mr. Chairman. If you are pressed for time, we can go right to questions.

Mr. HOYER. No. Go ahead. We want to hear from you.

SUMMARY STATEMENT OF MR. BARTON

Mr. BARTON. Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to appear here today to talk about the operations of the Office of Inspector General.

With me today are Mr. Edward F. Hefferon, Deputy Inspector General, and Mr. William E. Whyte, Jr., Assistant Inspector General for Auditing.

Mr. Chairman, I am pleased to have an opportunity to work with you in your new role as subcommittee Chairman. In the past we have appreciated your personal support and the support of this committee. We look forward to continuing this positive relationship under your leadership.

The Office of Inspector General was established by the Inspector General Act of 1978. We are an independent organization within GSA which conducts audits and investigations aimed at preventing fraud, waste and mismanagement in GSA's programs and recommending corrective actions.

Mr. Chairman, during my tenure as Inspector General, we have made substantial investments in both people and technology in an effort to better fulfill our mission and to provide the type of services which will help GSA manage its vast responsibilities effectively and efficiently.

A measure of the success of our efforts is the high dollar return in relation to our appropriated funds. During fiscal year 1992, our professional staff of auditors, investigators and lawyers, working closely together, attained a 10 to 1 rate of return on your invest-

ment in us. That is, for every dollar we spent, we returned $10 in actual recoveries or management decisions to put funds to better use.

We are very proud of that accomplishment. For the past several years we have averaged a return of between $7 to $8 for every dollar appropriated to us.

We are also especially proud of the fact that during fiscal year 1992, the joint efforts of our professional team achieved more than $28 million in civil fraud recoveries and settlements which will be returned to the U.S. Treasury.

Additionally, as a result of our recommendations, GSA management agreed to put $298 million to better use in accomplishing program results. We also obtained 39 criminal indictments and informations and 33 successful prosecutions, and our referrals resulted in the suspension or debarment of 76 contractors from doing business with the Federal government.

Mr. Chairman, our fiscal year 1993 appropriation is $34,748,000. Currently we have 417 staff members, 81 percent of which are auditors, investigators and attorneys, the remaining 19 percent in support roles.

Mr. Chairman, let me summarize some of our major activities. Our audit efforts are directed both internally and externally. Internal audits examine agency operations and programs, and address potential vulnerabilities in these operations and programs.

External audits, on the other hand, focus on the contracts GSA administers to provide goods and services to all government activities. These audits provide GSA's officials with information relevant to negotiation, award, administration, and settlement of contracts.

Our audit work is planned based on several factors, including areas most susceptible to fraud, waste and abuse: requirements established by laws and regulations; program dollar magnitude; and requests and suggestions of management.

The thrust of our investigative effort is to prevent and detect illegal and/or improper activities involving GSA programs, operations, and personnel. Based on our investigative work, we have made criminal and civil referrals to the Department of Justice for litigation consideration and administrative referrals to the agency for management action.

Mr. Chairman, we have many challenges facing us in the future. The environment in which GSA, as well as the entire Federal government operates, is rapidly changing. The taxpayer, Congress and agencies themselves are demanding more for less resources. There will be increasing pressures on Federal agencies to change how we do our business and how we interact with the public.

All of these factors will have a direct impact on how Inspectors General operate. We are constantly seeking ways to do more with less and to work smarter. With your help and that of this subcommittee, we stand ready to meet these new challenges.

Thank you, Mr. Chairman. That concludes my opening statement.

[The information follows:]

STATEMENT OF WILLIAM R. BARTON

INSPECTOR GENERAL, GENERAL SERVICES ADMINISTRATION
BEFORE THE
SUBCOMMITTEE ON TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT
OF THE HOUSE COMMITTEE ON APPROPRIATIONS
2-18-93

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

THANK YOU FOR THE OPPORTUNITY TO APPEAR HERE TODAY TO TALK ABOUT THE OPERATIONS OF THE OFFICE OF INSPECTOR GENERAL. ACCOMPANYING ME IS MR. EDWARD F. HEFFERON, DEPUTY INSPECTOR GENERAL.

THE OFFICE OF INSPECTOR GENERAL WAS ESTABLISHED BY THE INSPECTOR GENERAL ACT OF 1978. WE ARE AN INDEPENDENT ORGANIZATION WITHIN GSA WHICH CONDUCTS AUDITS AND INVESTIGATIONS AIMED AT PREVENTING FRAUD, WASTE AND MISMANAGEMENT IN GSA'S PROGRAMS AND RECOMMENDING CORRECTIVE ACTIONS.

MR. CHAIRMAN, DURING MY TENURE AS INSPECTOR GENERAL, WE HAVE MADE SUBSTANTIAL INVESTMENTS IN BOTH PEOPLE AND TECHNOLOGY IN AN EFFORT TO BETTER FULFILL OUR MISSION AND TO PROVIDE THE TYPE OF SERVICES WHICH WILL HELP GSA MANAGE ITS VAST RESPONSIBILITIES EFFECTIVELY AND EFFICIENTLY. THIS SUBCOMMITTEE HAS BEEN VERY SUPPORTIVE OF US THROUGHOUT THE YEARS AND WE LOOK FORWARD TO CONTINUING THIS POSITIVE RELATIONSHIP.

A MEASURE OF THE SUCCESS OF OUR EFFORTS IS THE HIGH DOLLAR RETURN IN RELATION TO OUR APPROPRIATED FUNDS. DURING FY 1992, OUR PROFESSIONAL STAFF OF AUDITORS, INVESTIGATORS AND LAWYERS, WORKING CLOSELY TOGETHER, ATTAINED A 10 TO 1 RATE OF RETURN ON YOUR INVESTMENT IN US. THAT IS, FOR EVERY DOLLAR WE SPENT, WE RETURNED 10 DOLLARS IN ACTUAL RECOVERIES OR MANAGEMENT DECISIONS TO PUT FUNDS TO BETTER USE. WE ARE VERY PROUD OF THAT ACCOMPLISHMENT. FOR THE PAST SEVERAL YEARS WE HAVE AVERAGED A RETURN OF BETWEEN $7-8 DOLLARS FOR EVERY DOLLAR APPROPRIATED TO US.

WE ARE ALSO ESPECIALLY PROUD OF THE FACT THAT DURING FY 1992, THE JOINT EFFORTS OF OUR PROFESSIONAL TEAM ACHIEVED MORE THAN $28 MILLION DOLLARS IN CIVIL FRAUD RECOVERIES AND SETTLEMENTS WHICH WILL BE RETURNED TO THE U.S. TREASURY.

ADDITIONALLY, AS A RESULT OF OUR RECOMMENDATIONS, GSA MANAGEMENT AGREED TO PUT $298 MILLION DOLLARS TO BETTER USE IN ACCOMPLISHING PROGRAM RESULTS. WE ALSO:

- OBTAINED 39 CRIMINAL INDICTMENTS/INFORMATIONS AND 33 SUCCESSFUL PROSECUTIONS; AND

- HAD 26 CASES ACCEPTED FOR CRIMINAL PROSECUTION AND 10 CASES FOR CIVIL LITIGATION; AND

- SUSPENDED OR DEBARRED 76 CONTRACTORS FROM DOING BUSINESS WITH

THE FEDERAL GOVERNMENT.

MR. CHAIRMAN, OUR FY 1993 APPROPRIATION IS $34,748,000. CURRENTLY WE HAVE 417 STAFF MEMBERS; 81% OF WHICH ARE AUDITORS, INVESTIGATORS AND ATTORNEYS, AND THE REMAINING 19% IN SUPPORT ROLES.

MR. CHAIRMAN, LET ME DETAIL SOME OF OUR MAJOR AREAS OF ACTIVITY.

AUDITS

OUR AUDIT EFFORTS ARE DIRECTED BOTH INTERNALLY AND EXTERNALLY. INTERNAL AUDITS EXAMINE AGENCY OPERATIONS AND PROGRAMS AND ADDRESS POTENTIAL VULNERABILITIES IN THESE OPERATIONS AND PROGRAMS. EXTERNAL AUDITS, ON THE OTHER HAND, FOCUS ON THE CONTRACTS GSA ADMINISTERS TO PROVIDE GOODS AND SERVICES TO ALL GOVERNMENT ACTIVITIES. THESE AUDITS PROVIDE GSA'S OFFICIALS WITH INFORMATION RELEVANT TO NEGOTIATION, AWARD, ADMINISTRATION, AND SETTLEMENT OF CONTRACTS.

IT IS DIFFICULT TO MEASURE WITH PRECISION THE BENEFITS WHICH FLOW FROM OUR INTERNAL AUDIT EFFORT. THE BENEFICIAL EFFECT OF RECOMMENDATIONS TO CHANGE POLICIES OR PROCEDURES DO NOT LEND THEMSELVES READILY TO MEASUREMENT. HOWEVER, THE RESULTS ACHIEVED BY OUR EXTERNAL AUDIT EFFORTS ARE MEASURABLE. DURING FISCAL YEAR 1992, WE AUDITED CONTRACTS VALUED AT OVER $3 BILLION DOLLARS. WE MADE $288 MILLION IN RECOMMENDATIONS TO USE RESOURCES MORE

EFFICIENTLY AND TO RECOVER FUNDS. IT IS IMPORTANT TO NOTE HERE THAT THESE ARE NOT JUST GSA FUNDS. BECAUSE MANY OF GSA CONTRACT'S ARE FOR USE BY ALL GOVERNMENT AGENCIES, DOLLAR RECOVERIES AND SAVINGS ARE GOVERNMENTWIDE.

INTERNAL AUDITS

WITH RESPECT TO OUR INTERNAL AUDIT WORK, PRIORITIES ARE ESTABLISHED CONSIDERING AREAS MOST SUSCEPTIBLE TO FRAUD, WASTE, AND ABUSE; REQUIREMENTS ESTABLISHED BY LAWS AND REGULATIONS; PROGRAM DOLLAR MAGNITUDE; LENGTH OF TIME SINCE THE LAST AUDIT; PRIOR OIG EXPERIENCE IN THE AREA; WEAKNESSES IDENTIFIED IN PRIOR FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT REVIEWS; AND REQUESTS AND SUGGESTIONS BY MANAGEMENT.

RECENTLY, WE HAVE BEEN TRYING A NEW APPROACH TO SOME OF OUR INTERNAL AUDITS. SEVERAL AUDITS ARE BEING SCHEDULED WHICH HAVE INTERRELATED OBJECTIVES. FOR EXAMPLE, WE WILL BE EVALUATING PBS'S LEASE ACQUISITION PROCESS. THIS EVALUATION WILL CONSIST OF SEVERAL INDIVIDUAL REVIEWS LOOKING AT THE LEASE APPRAISAL PROCESS, THE ADVERTISING AND MARKET SURVEYS AND THE NEGOTIATION AND AWARD PROCESS. WHEN THESE AUDITS ARE COMPLETED, WE WILL ISSUE A CONSOLIDATED REPORT WHICH WILL PROVIDE AN OVERALL ASSESSMENT OF THE LEASE ACQUISITION PROCESS. WE BELIEVE THIS APPROACH WILL PERMIT US TO MAKE SOME BROADER OBSERVATIONS ON GSA'S MAJOR PROGRAMS. OTHER MAJOR PROGRAMS BEING LOOKED AT ON THIS BASIS INCLUDE: AN EVALUATION OF HOW THE FEDERAL SUPPLY SERVICE DELIVERS STOCK TO CUSTOMER AGENCIES; AN ASSESSMENT OF THE INFORMATION RESOURCES

MANAGEMENT SERVICE'S RESPONSIVENESS AND EFFECTIVENESS IN MEETING THE NEEDS OF ITS CUSTOMERS AND CLIENT AGENCIES; AN ASSESSMENT OF THE OFFICE OF FTS2000'S EFFECTIVENESS IN MEETING THE NEEDS OF ITS CUSTOMERS AND CLIENT AGENCIES; AND AN ASSESSMENT OF THE ADEQUACY OF THE OFFICE OF THE CHIEF FINANCIAL OFFICER PAYMENT CONTROLS AND THE EFFICIENCY OF PAYMENT PROCESSING FOR MAJOR DISBURSEMENT ACTIVITIES OF GSA.

THIS BROAD APPROACH TO AUDITS REPRESENTS A SHIFT IN HOW WE REVIEW AGENCY OPERATIONS. AS WITH OTHER IG OFFICES, OUR INTERNAL AUDIT EFFORTS HAVE IN THE PAST FOCUSED PRIMARILY ON COMPLIANCE AUDITING - DETERMINING WHETHER GSA'S COMPONENTS WERE COMPLYING WITH LAWS, REGULATIONS AND INTERNAL POLICY DIRECTIVES. DURING RECENT YEARS, WE HAVE BEGUN TO SHIFT OUR EFFORTS FROM PROGRAM COMPLIANCE TO REVIEWS OF OVERALL PROGRAM OPERATIONS.

ANOTHER IMPORTANT PART OF OUR AUDIT RESPONSIBILITIES INCLUDES OVERSIGHT OF THE AUDIT OF GSA'S FINANCIAL STATEMENTS. THE CHIEF FINANCIAL OFFICERS ACT OF 1990 REQUIRES THE OIG TO ENSURE THAT AN AUDIT OF THE GSA'S CONSOLIDATED FINANCIAL STATEMENTS IS CONDUCTED ANNUALLY. TO FULFILL OUR RESPONSIBILITY, THE OIG SERVES AS GSA'S CONTRACTING OFFICER'S TECHNICAL REPRESENTATIVE AND IS RESPONSIBLE FOR OVERSEEING THE CPA FIRM'S PERFORMANCE OF THE CONTRACT.

IN ADDITION TO THE ABOVE, THE FY 1993 AUDIT PLAN PROVIDES FOR: AUDITS IN THE GSA PROCUREMENT AREA; AUDITS OF THE FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT; REVIEWS TO ASSURE THAT PRIOR

REVIEWS OF THE MULTIPLE AWARD SCHEDULE PROGRAM. OUR CONTRACT AUDITS INCLUDE:

REVIEWING CONTRACTORS PRICING PROPOSALS TO ENSURE THAT COSTS ARE ALLOWABLE, ALLOCABLE AND REASONABLE;

REVIEWING CONTRACTOR'S SALES, DISCOUNT AND MARKETING DATA TO ENSURE THE GOVERNMENT IS GETTING THE BEST POSSIBLE PRICE; AND

REVIEWING FEDERAL BUILDING CONSTRUCTION CONTRACTS, CLAIMS AND REPAIRS AND ALTERATIONS TO ENSURE COSTS ARE NOT MISALLOCATED, OVERCHARGED OR UNALLOWABLE.

INVESTIGATIONS

THE THRUST OF OUR INVESTIGATIVE EFFORT IS TO PREVENT AND DETECT ILLEGAL AND/OR IMPROPER ACTIVITIES INVOLVING GSA PROGRAMS, OPERATIONS, AND PERSONNEL. COMPLAINTS AND ALLEGATIONS ARE RECEIVED FROM VARIOUS SOURCES INCLUDING GSA EMPLOYEES, CONTRACTOR REPRESENTATIVES AND THE OIG HOTLINE AS WELL AS LEADS DEVELOPED IN OUR AUDIT WORK. BASED ON OUR INVESTIGATIVE WORK, WE MAKE CRIMINAL AND CIVIL REFERRALS TO THE DEPARTMENT OF JUSTICE FOR LITIGATION CONSIDERATION AND ADMINISTRATIVE REFERRALS TO THE AGENCY FOR MANAGEMENT ACTION.

IN KEEPING WITH OUR OVERALL MISSION, A LARGE PERCENTAGE OF

RECOMMENDATIONS HAVE BEEN PROPERLY IMPLEMENTED; REVIEWS OF GSA'S AUDIT FOLLOW-UP SYSTEMS; AND AUDITS OF GSA OPERATIONS AND PROGRAMS WHICH PROVIDE SERVICES AND SUPPORT TO CLIENT AGENCIES SUCH AS THE BUILDINGS MANAGEMENT PROGRAM, TELECOMMUNICATIONS PROGRAM, AND PERSONAL PROPERTY PROGRAM.

GIVEN THE OVERALL DIRECTION IN THE OIG AUDIT PLAN, WE RECOGNIZE THAT CHANGING PRIORITIES AND NEW ISSUES MAY AFFECT THE EXTENT TO WHICH OUR PLAN CAN BE IMPLEMENTED. TO MEET THE NEEDS OF GSA MANAGERS, ESPECIALLY REGIONAL ADMINISTRATORS, WHO MAY REQUEST SPECIAL AUDITS ON A PRIORITY BASIS, LOWER PRIORITY PROGRAMMED AUDITS MAY NOT BE UNDERTAKEN. WE TRY OF COURSE TO ENSURE THAT HIGHER PRIORITY AUDITS ARE DONE.

EXTERNAL AUDITS

A SIGNIFICANT PART OF OUR AUDIT EFFORT INVOLVES EXTERNAL OR CONTRACT AUDITING. EACH YEAR, GSA ISSUES SEVERAL THOUSAND CONTRACTS FOR BILLIONS OF DOLLARS WORTH OF EQUIPMENT, SUPPLIES, MATERIALS AND SERVICES FOR USE THROUGHOUT THE FEDERAL GOVERNMENT. BY REGULATION OR STATUTE, WE ARE REQUIRED TO CONSIDER AN AVERAGE OF 3,000 OF THESE CONTRACTS FOR AUDIT EACH YEAR. BASED ON OUR CURRENT STAFFING LEVEL, ONLY ABOUT 450 OF THE LARGEST CONTRACTS CAN BE REVIEWED EACH FISCAL YEAR. THESE CONTRACTS ARE AUDITED BEFORE OR AFTER AWARD, DEPENDING UPON AVAILABILITY OF RESOURCES, PRIOR HISTORY WITH THE COMPANY, AND REGULATED DOLLAR THRESHOLDS. WHILE CONTRACT AUDITS ARE PERFORMED ON BOTH A PREAWARD AND A POSTAWARD BASIS, THE LARGE MAJORITY OF OUR CONTRACT EFFORTS FOCUS ON PREAWARD

OUR INVESTIGATIVE RESOURCES ARE COMMITTED TO ACTIVITIES DESIGNED TO IDENTIFY AND DETER FRAUD, ESPECIALLY CONTRACT FRAUD. THIS REQUIRES CLOSE COOPERATION AMONG OUR AUDITORS, INVESTIGATORS AND ATTORNEYS AND THE DEPARTMENT OF JUSTICE.

IN ADDITION TO OUR EFFORTS IN THE CONTRACT FRAUD AREA, WE HAVE BEEN ACTIVE IN GSA'S SURPLUS PROPERTY PROGRAM. THIS PROGRAM PROVIDES DONATED AND SURPLUS PROPERTY TO THE STATES FOR DISTRIBUTION TO ELIGIBLE DONEES. THE OIG CONDUCTS INVESTIGATIONS CONCERNING ALLEGATIONS OF DIVERSION OF THESE PROPERTIES FOR USES OTHER THAN THOSE PERMITTED BY THE PROGRAM. SIGNIFICANT PROSECUTIONS, EQUIPMENT RECOVERIES AND RESTITUTIONS HAVE RESULTED FROM OUR INVESTIGATIVE EFFORTS.

WE ARE CURRENTLY DEVOTING SIGNIFICANT RESOURCES TO A REVIEW OF GSA'S COMPETITIVE BID CONTRACT PROCESS TO DETECT WHETHER COLLUSIVE BIDRIGGING ACTIVITY IS PRESENT IN CONTRACTING PROGRAMS AND WHETHER MATERIALS MEET SPECIFICATIONS OR WHETHER FALSE CLAIMS, OR FALSE STATEMENTS HAVE BEEN MADE IN CONNECTION WITH GSA'S VAST PROCUREMENT SYSTEM. CONSIDERING THE IMPORTANCE OF CONTRACTING TO GSA'S OPERATIONS, WE BELIEVE THIS IS AN AREA WHICH DESERVES OUR CONTINUING REVIEW.

WE ALSO OPERATE A 24-HOUR HOTLINE TO RECEIVE ALLEGATIONS AND COMPLAINTS RELATIVE TO GSA OPERATIONS NATIONWIDE. THE HOTLINE OFFERS A MEANS FOR INDIVIDUALS TO PROVIDE INFORMATION ON SUSPECTED FRAUD, WASTE, AND MISMANAGEMENT IN GSA PROGRAMS AND ACTIVITIES.

IN FY 1992 WE PROCESSED 156 HOTLINE CALLS AND LETTERS.

IN ADDITION, MR. CHAIRMAN, WE BELIEVE WE HAVE AN OBLIGATION TO EDUCATE GSA EMPLOYEES ON THEIR INDIVIDUAL RESPONSIBILITIES FOR PREVENTING FRAUD AND ABUSE AND TO REINFORCE EMPLOYEES' ROLES IN HELPING TO ENSURE THE INTEGRITY OF GSA'S OPERATIONS. DURING FY 1992, THE OIG CONDUCTED 40 BRIEFINGS ATTENDED BY MORE THAN 1000 GSA EMPLOYEES.

SUPPORTING OUR AUDIT AND INVESTIGATIVE EFFORTS, WE ALSO HAVE A SMALL STAFF OF LAWYERS WHO PROVIDE LEGAL ADVICE AND REPRESENTATION, REVIEW AND COMMENT ON LEGISLATION, AND ARE AN INTEGRAL PART OF OUR EFFORTS TO PURSUE PROSECUTIONS AND RECOVERIES, ESPECIALLY IN THE AREA OF CIVIL FRAUD LITIGATION. WE HAVE LAUNCHED AN AGGRESSIVE CONTRACTOR FRAUD PROGRAM FOCUSING ON THE FAILURE OF SOME CONTRACTORS IN THE MULTIPLE AWARD SCHEDULE PROGRAM TO DISCLOSE THEIR COMMERCIAL DISCOUNTS. IN A JOINT EFFORT, OUR AUDITORS, INVESTIGATORS AND LAWYERS WORK WITH THE DEPARTMENT OF JUSTICE TO BRING ACTIONS AGAINST CONTRACTORS UNDER THE FALSE CLAIMS ACT. AS STATED EARLIER, THESE CIVIL FRAUD EFFORTS HAVE RESULTED IN MORE THAN $28 MILLION IN JUDGMENTS AND SETTLEMENTS DURING FY 1992.

MR. CHAIRMAN, WE HAVE MANY CHALLENGES FACING US IN THE FUTURE. THE ENVIRONMENT IN WHICH GSA AS WELL AS THE ENTIRE FEDERAL GOVERNMENT OPERATES IS RAPIDLY CHANGING. THE TAXPAYER, CONGRESS AND AGENCIES THEMSELVES ARE DEMANDING MORE FOR LESS RESOURCES.

THERE WILL BE INCREASING PRESSURES ON FEDERAL AGENCIES TO CHANGE HOW WE DO OUR BUSINESS AND HOW WE INTERACT WITH THE PUBLIC. ALL OF THESE FACTORS WILL HAVE A DIRECT IMPACT ON HOW INSPECTORS GENERAL OPERATE. WE ARE CONSTANTLY SEEKING WAYS TO DO MORE WITH LESS AND TO WORK SMARTER. WITH YOUR HELP AND THAT OF THIS SUBCOMMITTEE, WE STAND READY TO MEET THESE NEW CHALLENGES. THANK YOU. THAT CONCLUDES MY OPENING STATEMENT. I WILL BE HAPPY TO ANSWER ANY QUESTIONS.

PRODUCTIVITY

Mr. HOYER. Thank you very much, Mr. Barton.

In the last page of your statement you say you were demanding more for less. I think that is a theme that we are going to be using a lot in the appropriations process, not just this year but in the next three years as well.

The American public when asked in polls what happens to their tax dollar, responds that they believe 46 cents of every dollar is wasted. It is not surprising why they don't want to pay more taxes, although I think it is extraordinary that 80 percent of the public questioned today says they support the President's program when he asks for more taxes. But I think that is only because he has made it very clear to them that he believes we can spend money smarter, better and more efficiently.

Your agency can be very helpful to GSA, and to this committee, because you are an independent agency. I look forward to getting your recommendations.

Forty-six cents is a big number. We are going to be talking about a 3 percent reduction in administrative costs, trying to get 3 percent from everybody. So you might be thinking of that in terms of your budget request as well. We are all going to start this process at home.

GAO'S TRANSITION REPORTS

GAO recently released a transition series of reports, as you know. One report deals with fundamental changes needed at GSA. Have you reviewed this report, and if so, what is your reaction to it?

Mr. BARTON. Yes, Mr. Chairman, we did review this report, and I think in short it was a fair statement and an accurate statement.

I think we need to add to that, though, that the agency has taken steps to improve on some of those situations, especially in the area of management of internal controls. In that report, GAO mentioned that the agency was weak in that area.

Several things have occurred in the last couple of years, more so last year. The agency took a very firm step in forming a management control oversight committee chaired by the Deputy Administrator for GSA. I sit on the committee as an adviser.

Heretofore it was very difficult for a manager in GSA to say he had a material weakness. It was just something that is inherent with managers. They do not want to admit to a material weakness.

But through the process in this last year, GSA admitted and wrote in their letter to the President nine material weaknesses. So there is a turnaround and I think we have seen some improvement in this process.

Mr. HOYER. When you say material weakness, you mean a weakness that affects the efficiency of the agency?

Mr. BARTON. That is correct.

Mr. HOYER. I presume in the review of the GAO reports, you have numbered the recommendations or observations they made and are checking on each one of them?

Mr. BARTON. Yes, sir.

TRACKING OF RECOMMENDATIONS

Mr. HOYER. Do you intend to issue any kind of report related to GAO's proposals and what your findings, and recommendations are?

Mr. BARTON. Some of the recommendations they raised we are doing work on and will do further work, but we have no intention of responding to each item in the report. We are following up with our own reviews and also auditing the agency itself to make sure they are following up.

Mr. HOYER. Mr. Early, we obviously don't have a GSA Administrator yet, but I would think that one of the first things I would do if I were the Administrator is ask for a report on this. Is GSA itself doing that?

Mr. EARLY. We received a report, looked at it, reviewed it, and our management is looking at it. I don't know of any specific actions tracking that transition report. We are tracking and dealing with all the recommendations that GAO has had in numerous reports over the last year.

Mr. HOYER. You might want to advise the administration that that is one thing this Committee would be interested in. How does GSA track recommendations and whether or not there were valid recommendations or criticisms, and if so, what is being done to effect the changes they recommend.

INTERNAL CONTROL SYSTEMS

Mr. Barton, one problem addressed by GAO is the need to strengthen GSA's internal control systems, to protect them from fraud, waste and mismanagement. According to GAO, GSA has relied on your office as the agency's primary control to stop misguided actions. But GAO has not followed up on I.G. recommendations to prevent further abuses.

What is your reaction to that observation?

Mr. BARTON. It is somewhat a fair observation, but again, we are seeing improvements in some of these programs that we are bringing to the attention of management.

If I can digress just a little bit, heretofore, in the audits, we were doing a lot of compliance audits, and we were going into various regions and issuing reports to the manager. These reports were not coming up to top management.

So through the efforts of Mr. Whyte and his auditors, we are now coming out with highlight reports, rolling up a lot of our findings to let management know that these are conditions that have to be corrected. And we are now beginning to see a lot of corrections coming forth. I think we are on a good course now through these latest efforts.

Mr. HOYER. Mr. Lightfoot?

GROWTH IN FTS2000

Mr. LIGHTFOOT. Thank you, Mr. Chairman.

Just one question, and I may submit one. I have a prior commitment. I have to leave in a minute or two.

Last year, one of the alligators you were wrestling with is the growth in the FTS2000 system and the complexity of doing that audit. Has that situation improved any?

Mr. BARTON. We completed one audit in 1991, and we have more in process in 1992. We have about 11 audits underway at the present time.

Since Mr. Whyte has more expertise in that area, I would like to have him address that, if he would.

Mr. WHYTE. In early 1992, we devoted a large amount of resources to finding out what this huge thing called FTS2000 involves and, as a result of our efforts we programmed 10 audits to start in the second half of 1992. Four of these audits have been issued.

We have programmed additional resources into the area for fiscal year 1993.

We believe there are FTS2000 activities where improvements can be achieved, but we have not yet finalized our audit results. We have directed resources to a comprehensive analysis of the entire FTS2000, because FTS2000 is a very complex area to do a lot of technical research in order to understand the programs and communicate with program managers in dollars and cents.

I think in this coming fiscal year, fiscal year 1993, this Committee should see some significant benefits from that investment.

Mr. LIGHTFOOT. So will you have an auditing definition of what FTS2000 is?

Mr. WHYTE. Yes.

Mr. LIGHTFOOT. That will be our Christmas present, is that what you are saying?

Mr. WHYTE. We will make that your Christmas present.

Mr. LIGHTFOOT. Thank you, Mr. Chairman.

FTS2000 HEARING

Mr. HOYER. As you probably have heard and know, we intend to have a hearing some 30 days after the report is issued on FTS2000.

Mr. EARLY. Hopefully it will be released soon.

Mr. HOYER. This Committee has, I guess, for three or four years carried in its bill language dealing with FTS. I think it is about time that the Members had some understanding of what GSA is doing.

We are going to have a full hearing devoted solely to FTS, and we are going to be inviting, of course, you to come in and others to come in from GSA, but also we are going to ask MCI and others who have an interest to see competition open up so we can hear their side of the story as well. So when we come to mark up the bill, the Members will have an understanding of what this language is about.

Mr. LIGHTFOOT. When we get Mr. Whyte's definition, we will know.

Mr. HOYER. I don't think from a lot of people's standpoint, definition is the problem.

Mr. LIGHTFOOT. I think that is absolutely right.

CHIEF FINANCIAL OFFICER ACT RESPONSIBILITIES

Mr. HOYER. What are your responsibilities under the Chief Financial Officer Act?

Mr. BARTON. At the present time, our responsibility is to audit the financial statement of GSA. The audit is conducted by Arthur Andersen and Company, and our role is to oversee that particular contract.

We, as the I.G., did not get into auditing the financial statement ourselves. As you recall, Mr. Chairman, around 1987 or so, before the Chief Financial Officers Act was passed, they had already started the audit of the financial statement. I think GSA was one of the first agencies to do that.

So Arthur Andersen has been doing it, and we are the contract managers of that project.

Mr. HOYER. How has this impacted on your resources and audit levels and need for additional resources?

Mr. BARTON. Right now, we have approximately three to five people managing that particular contract. In our 1994 budget submission, we have asked for additional people to be added to the OIG to do some of the audit ourselves.

The reason we want to do that is that we think by us doing the auditing of the financial statement, we as the Inspector General will receive more information about the organization itself, and then we can use some of this information to see where we need to plug in some of our own resources.

So we are asking for additional people so that we cannot only manage the contract, but also do some of this work ourselves.

Mr. HOYER. How many additional people are you asking for?

Mr. BARTON. Thirteen would be the first year, but if you move into where we take over the whole audit, it would of course be a lot more people. That depends again on this committee, as to whether we do get resources or not.

GOVERNMENTWIDE SAVINGS

Mr. HOYER. As we apply new objectives, we have to look carefully at the old objectives and look at shifting people rather than adding people to focus on new things. So we will have to work on that.

You indicated a 10-to-one rate of return on investment. In other words, the recommendations you make identify savings to the government in excess of what it costs you to make those recommendations. Does this measure include recommendations made or recommendations implemented?

I notice in your statement, which I marked and we will go back to it, you said real dollar savings is based on——

Mr. BARTON. Management commitment to save those dollars.

Mr. HOYER. Our friends on the Republican side of the aisle say they are going to cut spending. It is a great commitment, but it will never be realized. How does that relate to your management commitment?

Mr. BARTON. The $298 million savings that we mention in that statement results through purchase savings made by all the other Federal agencies. The savings are not savings from GSA's budget, but represent total savings throughout the Federal government. The Federal agencies can use the money they would have normally spent for these services for other things that they do.

So as management said, we will commit to $298 million. The other $48 million was management saying that we will recover funds and also the funds we made went back to Treasury because of civil and criminal litigation.

Mr. HOYER. Presumably, there should be, as a result of that commitment, $248 million which Congress appropriated but which were not needed for the objective for which they were appropriated due to your reviews; is that correct?

Mr. BARTON. Let me——

Mr. HOYER. So that there ought to be a quarter of a billion dollars available for reallocation?

Mr. BARTON. In a sense. It is a very soft kind of figure.

Mr. HOYER. The public is very suspicious of us in government when we say, as we so often do, if we spend $100, we are going to save $200. Or because we had this program, we only spent $100, you otherwise would have had to have spent $200. The public says you can project whatever figures you want of what we would have spent, but what did you actually save? When you said you needed $5 to purchase this, and you purchased it for only $2.50, you therefore should have an extra $2.50 on the table.

Mr. HEFFERON. If the agency is going to enter into a contract with a major company like IBM, for example, they have certain prices listed for commodities they are going to purchase. Mr. Whyte's staff goes in and looks at those commodities and determines whether the government is, in fact, IBM's best customer, and whether we are, in fact, getting the best discounts. And his recommendations to the contracting officer are, you ought to seek a 45 percent discount on this particular item as opposed to the 40 percent you are currently negotiating. That is the type of savings we are referring to, preventing unnecessary expenditures in a sense. The savings are not all GSA because we are negotiating contracts.

Mr. HOYER. From all different agencies?

Mr. WHYTE. Yes from all government agencies.

IMPLEMENTING RECOMMENDATIONS

Mr. HOYER. Does GSA implement all the recommendations you make? Do you keep track of your recommendations and the implementation of them?

Mr. BARTON. We make the recommendation to management as a result of our audits. There is a tracking system within GSA that keeps track of the implementation of the recommendations that we make. What we will do is do a compliance audit and say, did you do what you said you were going to do? So we have that kind of a verification of our recommendation, and if it is something that we

feel very strongly about, then we will work with that office to make sure that those recommendations are followed.

Mr. HOYER. Mr. Barton, I have a number of other questions that if you will answer them for the record, we will appreciate it.

Mr. BARTON. Thank you.

[Additional questions submitted for the record by the Committee and the answers thereto follow:]

GENERAL ACCOUNTING OFFICE

1. The GAO recently released a "Transition Series" of reports on governmentwide issues. One report deals with fundamental changes needed at GSA. Have you reviewed this report and if so, what is your reaction to GAO's findings?

We have reviewed the report and generally agree with GAO's observations, particularly regarding the need to strengthen asset management within GSA.

2. One problem area addressed by the GAO, is the need to strengthen GSA's internal control systems to protect them from fraud, waste, and mismanagement. According to this report, GSA has relied on your office as, "the agency's primary control to stop misguided actions," but has not followed-up on IG recommendations to prevent further abuses. What is your reaction to this GAO observation?

GAO's observations are generally accurate. However, I must say that GSA has made some positive strides in this regard. Recognizing and reporting on material control weaknesses is one example. This year GSA recognized the fact that there are at least nine material control weaknesses in their systems and they reported that fact to the President. That is a very positive step forward. (List of material weaknesses on next page.)

3. What has GSA done to implement both IG and GAO recommendations and do you see these initiatives being carried over into the new administration?

Many of the recommendations made both by GAO and my office are directed at improvements in the agency's systems. As such, we fully expect they will be carried over into the new Administration. However, we intend to monitor this area.

FTS2000

1. Last year you stated that your office would be devoting considerable resources to the review of the FTS2000 program, especially in the area of travel by the FTS2000 office personnel. Have you been able to accomplish a review of the FTS2000 project and if so, what are your impressions of the administration of the project?

We have increased our focus on various aspects of the FTS2000 program during FY 1992. Many of the initiatives started are nearing completion and final results will be achieved in FY 1993. What we have completed to date indicates that actions should be taken to strengthen the process for: establishing more effective financial controls over customer training costs; establishing uniform procedures for monitoring training provisions; establishing more timely completion and reporting on service requests; and increasing trouble resolution and status reporting procedures. Positive results in these areas should increase FTS2000's assurance that internal control systems are achieving desired results. Based upon our observations of the FTS2000 travel costs we found no evidence that the costs were excessive or inappropriate.

2. In last year's hearing, you stated that you were evaluating FTS2000 payments and billings to customer agencies. Have you completed the audit and if so, what recommendations did you make in it?

Our fieldwork for this audit was recently completed. The report of our findings is being drafted and will be presented to management for their review in March 1992. It will include some specific recommendations. We will furnish you with copies.

3. How many FTS2000 reviews were conducted in 1992 and how does this number compare to those conducted in 1991?

In FY 1991, we started 1 audit and had 1 in process. In FY 1992, we started 10 audits, completed 5, and had 6 in process.

4. For the record, please provide a listing of all the FTS2000 audits and reviews you have performed in 1991 and 1992. Furthermore, please provide copies of these audits and reviews to the staff for the Committee's files.

The 5 audits issued in FY 1992 include:

A11931 Limited Audit of FTS2000 Customer Support (started in FY 1991)

The following audits were started and issued in FY 1992:

A23605 Limited Audit of the Office of FTS2000's Fiscal Year 1991 Section 2 Assurance Statement

A23624 Audit of FTS2000 Travel Expenses

A23633 Audit of FTS2000 Customer Training AT&T Contract

A23641 Limited Audit of the Fiscal Year 1002 Section 2 Assurance Statement for the Office of FTS2000

CHIEF FINANCIAL OFFICER

1. What are your responsibilities under the Chief Financial Officer Act?

The Act requires the OIG or an independent external auditor, as determined by the Inspector General, to audit GSA's financial statements in accordance with the Governmental Auditing Standards. Under a contract being administered by the OIG, the independent public accounting firm of Arthur Andersen & Co., has been engaged to perform the audit.

We are currently overseeing the work of Arthur Andersen & Co.

2. How has this act impacted on your audit levels and need for additional resources?

The Act requires the OIG to reallocate resources in order to oversee the annual financial statement audit being performed by Arthur Andersen & Co., as well as to address other CFO related

requirements, such as: governmentwide coordination, and employee training and development. Current full time requirements for these activities range from 3 to 5 senior level auditors.

On a long-term basis, we had planned to phase in and perform the annual financial statement audit in-house over the next 5 years. In order to perform the audit in-house, we have estimated for the Office of Management and Budget that 41 full time staff years of effort will be necessary.

As I stated earlier, however, our current plans are somewhat uncertain depending on the availability of resources.

3. Has GSA responded positively to your need for additional resources?

Mr. Chairman, the agency passed our budget request on to the Office of Management and Budget. I would like to believe they were positive about our needs but I also understand that times are difficult and we all need to do more with less.

4. To what extent does the IG rely on outside financial audit expertise from one of the Big-Eight accounting firms? What is the estimated cost to the IG of hiring outside accounting expertise?

Presently the entire financial statement audit is done by an independent public accountant, Arthur Andersen & Co., at a cost of $750,000 for the Fiscal Year 1993 audit. Our role is to review the work done by Andersen.

Our overall plan was to assume portions of this work so we would be very familiar with it in the event we had to assume the burden sometime in the future. While we have many CPA's on our staff, this is not normally the type of work we do and it is specialized. At the moment, we are unsure of our future approach. Without additional resources we are limited in the work we can assume. And, I would add Mr. Chairman, just the monitoring alone requires 3 staff years.

We expect our efforts here to escalate in the future, as the Federal Government moves towards performance based budgets and further demands are placed on us to audit and certify performance data.

RETURN ON INVESTMENTS

1. In your testimony, you state that the IG attained a ten-to-one rate of return on the investment made in appropriated dollars. In other words, the recommendations you make identify savings to the government in excess of the amount appropriated to the IG. Does this measure include recommendations made or recommendations implemented?

Mr. Chairman, we are proud of the fact that our rate of return was 10 to 1 this year. This measure includes primarily recommendations implemented by the agency. In fact, last year was an anomaly in that our total recommended savings were $288 million and the agency agreed to put $298 million to better use. Some of the dollars implemented by GSA covered recommendations from prior years.

2. Does GSA implement all of the recommendations you make? If not, why not?

Generally, yes. On the contract side, the numbers sometimes work out slightly more or slightly less than our recommendations because there is a negotiation process involved.

On the internal side, GAO was critical of GSA for not always fully implementing audit recommendations. In fairness, I think they do a good job of implementing audit recommendations but we intend to stay on top of them to assure they continue to implement effectively.

POOR QUALITY ITEMS AND VENDORS

1. Last month, GAO reported that the Federal Supply Service continues to do business with a number of vendors who have histories of supplying defective or poor quality products. What audits or reviews has your office done with respect to defective or poor quality products supplied by vendors?

GAO referred five GSA contractors that they believed may have made false statements or certifications to GSA or engaged in other unlawful conduct. Three of these cases GAO originally got from us. Those investigations are ongoing. We also opened two other cases based on the referral.

2. Has the Federal Supply Service requested you review its operations in an effort to identify fraudulent vendors? If so, what have you done in this area?

I'm not aware of any specific requests by FSS for us to identify fraudulent vendors.

3. In your estimation, what does the Federal Supply Service need to do to eliminate fraudulent vendors from its rolls? What would be the savings to the government if this were accomplished?

We have no way to estimate the number of fraudulent vendors on the FSS rolls. Therefore, any savings projection would be pure speculation.

INSPECTOR GENERAL

1. Has your employee turnover rate improved since your testimony last year?

Last year we reported that we lost many talented managers and professionals at all levels to a number of quasi-governmental entities. These entities were providing salary and benefit differentials which frequently amounted to 20% or more. This continues to be a problem. For example, during the last half of FY 1992 and the first half of FY 1993, we lost 8 professional auditors and investigators to these entities. This accounted for approximately 30% of our auditor/investigator turnover (excludes death and retirement) during this time period. As long as these entities can continue to offer greater compensation package benefits, our professional staff remains vulnerable.

I. MISSION AND RESOURCES

OFFICE OF INSPECTOR GENERAL SUMMARY
$ (Thousands)

	FY 1992 Actual	FY 1993 Estimate
Appropriations Annual No Year	$ 33,451 964	$ 34,748 1,718
OIG Reimbursable (obligations):	$ 77	$ 110
EMPLOYMENT (FTE)	432	435

BACKGROUND

The Office of Inspector General (OIG) was established by the Inspector General Act of 1978 to provide nationwide audit and investigative coverage of GSA's programs and operations. The OIG is financed through a direct annual appropriation. Also, in FY 1989 we received $5 million to develop and implement the OIG's long range strategic ADP plan. Through FY 1992 the OIG expended approximately $2.6 million dollars. The remainder will be allocated for Fiscal Years 1993 and 1994.

The OIG mission is to identify and correct management and administrative deficiencies within GSA which create conditions for existing or potential instances of fraud, waste, and mismanagement. A primary measure of success of the OIG's efforts is the consistent high dollar return in relation to funds appropriated. Historically over the life of the OIG at GSA, for every dollar appropriated the OIG has returned between $7-8 dollars to the Treasury or in documented reduced cost to the Government.

The OIG's primary operational components consist of the:

Office of Audits - A multidisciplinary staff of financial and technical experts who provide nationwide, comprehensive coverage of GSA operations (internal or management audits) and reviews of GSA contractors (external or contract audits).

Office of Investigations - An investigative unit that manages a nationwide program to prevent and detect illegal and/or improper activities involving GSA programs, operations and personnel.

Office of Counsel to the Inspector General - An in-house legal staff that provides legal advice and assistance to all OIG components. This office's attorneys represent the OIG in connection with litigation arising out of or affecting OIG operations and prepare OIG comments on proposed legislation.

These OIG components are supported by several other OIG offices: an Office of Administration which provides budget, personnel, administrative services and computer support services; an Internal Office of Quality Management assists the OIG in its efforts to implement a Total Quality Management environment, and an Internal Evaluation Staff that plans and directs an in-house assessment program, including field office appraisals and sensitive reviews of OIG operations.

Audit Operations

The Office of Audits is the major operating component of the OIG. Approximately 63% of the OIG's resources are in the Office of Audits. The OIG's audit services are internally and externally directed. Internal audits examine all facets of agency operations, programs and activities and address potential vulnerabilities in GSA programs and operations. External audits focus on the contracts GSA administers to provide the goods and services to all government activities. Contract audits provide GSA's officials with information relevant to negotiation, award, administration, repricing, and settlement of contracts. Results achieved by this program are significant. During fiscal year 1992, OIG audit activities resulted in over $288 million in recommendations to use resources more efficiently and to recover funds. It is important to note that these funds are not just GSA funds. Because many of GSA's contracts are for use by all government agencies, dollar recoveries or recommendations for better use are governmentwide.

Internal Audits - The OIG's internal audit program is designed to provide broad coverage of programs, operations and administrative activities throughout GSA's Services and Staff Offices. Our audits include management, operational, and compliance reviews.

The Office of Audits has identified priority issues and programs of concern to the OIG and GSA management. Audit priorities are established considering areas most susceptible to fraud, waste, and other vulnerabilities; requirements established by laws and regulations; program dollar magnitude; length of time since the last audit; prior OIG experience in the area; weaknesses identified in prior Federal Managers' Financial Integrity Act reviews; and management requests.

For Fiscal Year 1993, the internal audit plan emphasizes program evaluation audit themes for each of the services and staff offices. Overall, these audits will evaluate GSA's ability to operate in an efficient and effective manner. The following presents an overview of the theme audits by service and staff office:

Public Buildings Service (PBS) - Evaluation of PBS's Lease Acquisition Process - GSA leases over 5,200 properties at an annual cost of approximately $2 billion. To ensure that the leasing program is operating efficiently and effectively, audit evaluations are and will be conducted on the various phases of the PBS's lease acquisition process. This includes:

(1) the appraisal function, which is used to establish a negotiation position prior to award of a lease;

(2) the advertising and market survey function, which are the primary determinants of adequate competition and price negotiation; and

(3) the negotiation and award function, which ultimately determines the successful offeror and the cost to the Government.

Federal Supply Service (FSS) - Evaluation of FSS's Economic Efficiency in Delivering Stock to Customer Agencies - FSS annually provides customer agencies with over $1.7 billion dollars in supplies and services from its distribution system and suppliers. Included in the FSS depot system are approximately 18,000 different items. Our reviews assess whether FSS is delivering stock to customer agencies in an efficient and economical manner. The audit reviews include evaluating:

(1) the accuracy and appropriateness of FSS's operating costs which are charged to other government users through the prices and rates charged for goods and services;

(2) the benefits of stocking Multiple Award Schedule items in GSA depots; and

(3) the philosophy for filling customer orders with depot stock or items delivered directly from a supplier to the customer.

Information Resources Management Service (IRMS) - Evaluation of IRMS's Customer Service Responsiveness - IRMS provides over $1.3 billion in telecommunications and other services to its customer and client agencies. Audit evaluation are planned to assess IRMS's responsiveness and effectiveness in meeting the needs of its customers and client agencies. The reviews will evaluate:

(1) the adequacy of regional IRMS procedures and practices for inspecting the services rendered by contractors for telephone equipment and services for client agencies served by GSA-controlled telephone switches;

(2) IRMS's effectiveness in acquiring and administering telephone services to its customer agencies; and

(3) the effectiveness of the IRMS's Regional Contracting Officer Technical Representatives in providing telecommunications equipment/services for all agencies and accomplishing oversight and liaison activities to ensure contractor compliance and customer satisfaction.

In addition to these major Service theme audits, the OIG is conducting theme audits in two major Offices;

Office of FTS2000 - Evaluation of the Responsiveness to Customers Needs - The Office of FTS2000 provides for long distance telecommunication services through contracts with AT&T and U.S. Sprint. The contracts have an estimated value of $15 billion and $10 billion respectively. The OIG is and will continue to assess the Office of FTS2000's effectiveness in meeting the needs of its customers and client agencies. The reviews will evaluate:

(1) the FTS2000 contractor's responsiveness to provide client agencies training in the use of FTS2000 services and equipment; and

(2) the Office of FTS2000's procedures for monitoring contractor compliance with the FTS2000 contracts.

Office of the Chief Financial Officer (CFO) - Evaluation of Payment Processing - The Office of CFO provides GSA's Services and Staff Offices with overall budgetary and liaison activities; management, review and oversight of financial management systems; and accounting and reporting services. Audits will be performed to assess the adequacy of the Office of the Chief Financial Officers's payment controls and the efficiency of payment processing for major disbursements activities of GSA. The evaluations will enhance the Inspector General's ability to meet the requirements of the Chief Financial Officers Act. The planned reviews will evaluate:

(1) controls over the Federal Building Fund lease payments, which are approximately $2 billion annually;

(2) controls designed to provide reasonable assurance that duplicate payments are not being made to vendors;

(3) internal controls of the $1.3 billion Industrial Technology Fund and assess whether the financial statements are free from material misstatement; and

(4) payment processing controls in the FEDPAY system which processes 979,000 invoices totaling $1.7 billion under the General Supply Fund.

Audited Financial Statements - In addition to our internal audit coverage of GSA's major programs and activities, the Chief Financial Officers Act of 1990 requires the OIG to ensure that an audit of the GSA's consolidated financial statements is conducted annually. To fulfill our responsibility, the OIG serves as GSA's Contracting Officer's Technical Representative and is responsible for overseeing the CPA firm's performance of the contract. Additionally, OMB draft guidance implementing the Chief Financial Officer Act requires the OIG to perform quality reviews of audits performed by CPA firms. This review will evaluate whether the CPA firm's audit work was performed in accordance with applicable Federal audit standards as required by the contract.

Other Items in Audit Plan - In addition to the above, the FY 1993 audit plan provides for: (1) audits in the GSA procurement area, especially in contract audits where approximately 46 percent of available direct audit resources will be spent; (2) audits of the Federal Managers' Financial Integrity Act, implementation reviews, and GSA audit follow-up systems, which check on whether management is reporting major material weaknesses in internal controls and whether they are monitoring and following up on audit recommendations; and (3) audits of GSA operations and programs which provide services and support to client agencies such as the buildings management program, telecommunications program, and personal property program.

Given the overall direction in the OIG audit plan, the OIG recognizes that changing priorities and new issues may affect the extent to which the Plan can be implemented. To meet the needs of GSA managers, especially Regional Administrators, who will request special audits on a priority basis, lower priority programmed audits may not be undertaken. The OIG will strive, however, to ensure that higher priority audits be performed. Accordingly, regulatory and theme audits will be given precedence over other projects.

External (contract) Auditing - Each year, GSA issues several thousand contracts for billions of dollars worth of equipment, supplies, materials and services for use throughout the Federal government. By regulation or statute, the OIG is required to consider an average of 3,000 of these contracts for audit each year. Based on our current staffing level of 227 auditors, only about 450 of the largest contracts, valued at $3 billion, can be reviewed each fiscal year. During FY 1992, the OIG audited contracts valued at $3.2 billion dollars. These contracts are audited before or after award, depending upon availability of resources, prior history with the company, and regulated dollar thresholds. While contract audits are performed on both a preaward and a postaward basis, the large majority of our contract efforts focus on preaward reviews of an annual $4.8 billion Multiple Award Schedule Program.

The various types of contracts audited are as varied as GSA's contracting activities. For example, our contract audits include:

Reviewing contractors pricing proposals to ensure that proposed costs are allowable, allocable and reasonable;

Reviewing contractor's products sales, discount and marketing data to ensure the government is getting the best possible deal; and

Reviewing Federal building construction contracts, claims and repairs and alterations to ensure costs are not misallocated, overcharged or unallowable.

Investigative Operations

The Office of Investigations is an investigative unit that manages a nationwide program to prevent and detect illegal and/or improper activities involving GSA programs, operations, and personnel. The OIG's investigative operations include evaluating complaints and allegations from various sources including the audit staff, GSA employees, contractor representatives and the OIG Hotline. Based on its work, the Office of Investigations makes criminal and civil referrals to the Department of Justice for litigation consideration.

Investigative Focus - In keeping with the OIG's overll mission of detecting and preventing fraud and abuse in agency programs and operations, the OIG commits a high percentage of our investigative resources to procurement and contract fraud matters. Specifically, we are focusing primarily on defective pricing, surplus property, and bidrigging investigations.

Defective Pricing - The Truth in Negotiations Act requires submission of complete, current and accurate cost and pricing data to the Government during preaward negotiations for all contracts valued over $100,000. This ensures that the Government has the information to determine the reasonableness of the contractor's offer. Successful investigations of this type of case involves extensive coordination between the investigative, audit, and legal counsel components of the OIG. In FY 1992 these investigations resulted in contractors returning $27,634,685 to the Treasury of the United States for pricing violations.

Surplus Property - GSA's Federal surplus property program provides donated and surplus property to the States for distribution to eligible donees. The OIG conducts investigations when allegations arise of potential diversion/conversion of these properties to other than the intended donees. Our investigations of this GSA program have been very successful over the past several years.

Bidrigging - We have recently initiated a proactive investigative review of GSA's competitive bid contract process to detect whether collusive bidrigging activity is present in contracting programs and whether sub-specifications materials, false claims, or false statements have been made in connection with GSA's vast procurement system.

OIG Hotline - The Office of Investigations also operates a 24-hour Hotline through which it receives allegations and complaints relative to GSA operations nationwide. The Hotline offers a convenient means for providing information on suspected fraud, waste, and mismanagement in GSA programs and activities. In FY 1992 we processed 156 hotline calls and letters, 12 GAO referrals, and 25 other agency referrals.

Integrity Awareness Briefings - The Office of Investigations also has a major responsibility to educate GSA employees on their individual responsibilities for preventing fraud and abuse and to reinforce employees' roles in helping to ensure the integrity of GSA's operations. During FY 1992, the OIG conducted 40 briefings attended by 1063 Central Office and regional employees.

Finally, in FY 1992, we opened 410 new investigations and closed 340 cases. Twenty six cases (53 subjects) were accepted for criminal prosecution, and 10 cases (21 subjects) were accepted for civil litigation. We had 39 criminal indictments/information and 33 successful prosecutions on criminal matters referred. Our investigations were also responsible for 39 personnel actions being taken against GSA employees, and effected the suspension and debarments of 76 contractors from participation in government procurement activities.

PERFORMANCE and WORKLOAD MEASURES

The OIG uses several measurement indicators to track and evaluate overall office performance and workforce workload. Following is a summary of the major overall measurement indicators:

	FY1989	FY1990	FY1991	FY1992
Audit Reports Issued				
- Internal	317	277	206	197
- Contract	587	549	492	463
Total	904	826	698	660
Recommended Savings ($mil)				
- Avoidance	$237.7	$244.4	$275.9	$284.5
- Recovery	27.4	10.9	11.6	4.3
Total	$265.1	$255.3	$287.5	$288.8
Referrals (BY Subject)				
Criminal	211	136	117	114
Civil	66	55	39	35
Administrative	150	291	293	280
Information Only	138	120	109	202
Total	565	602	558	631
Indictments Information/ Complaints	53	45	47	44
Successful legal Actions				
- Criminal Prosecutions	47	36	32	33
- Civil Settlements/ Judgements	6	13	21	20
Total	53	49	53	53
Administrative Actions				
- Contractor Suspensions/ Debarments	104	107	130	76
- Employee Actions	46	64	36	39
Total	150	171	166	115
Monetary Recoveries ($mil)	$8.2	$18.3	$29.9	$33.3

In addition to these overall organizational performance measures, the OIG developed internal workload measurements. These internal measurements include:

- Costs recovered/avoided per audit/investigative/counsel FTE
- Recommended cost avoidance/recovery per audit FTE
- Audit Reports issued per FTE
- Management commitment to avoid/recover funds
- Criminal/civil/administrative referrals per investigative FTE
- Employee actions (reprimands, suspensions, terminations, demotions) per investigative FTE
- Investigative cases opened, closed, referred for criminal/civil action per investigative FTE
- Successful criminal/civil prosecutions per investigative FTE
- Contractor suspensions and debarments
- IG subpoenas issued
- Legislation and regulations reviewed

THURSDAY, FEBRUARY 18, 1993.

GENERAL MANAGEMENT AND ADMINISTRATION

WITNESSES

WILLIAM B. EARLY, JR., ACTING CHIEF FINANCIAL OFFICER
NANCY L. POTTER, ACTING DIRECTOR OF BUDGET
JON JORDAN, CONTROLLER, OFFICE OF ADMINISTRATION
STEPHEN M. DANIELS, CHAIRMAN, GSA, BOARD OF CONTRACT APPEALS
MARY L. BABCOCK, ASSOCIATE ADMINISTRATOR FOR ADMINISTRATION

INTRODUCTION

Mr. HOYER. Next we will hear from Mr. Early about the General Management and Administration account.

We are glad to have you with us as the Acting Chief Financial Officer of the General Services Administration.

SUMMARY STATEMENT OF MR. EARLY

Mr. EARLY. Glad to be here, Mr. Chairman.

Before responding to your specific questions, I would like to take this opportunity to introduce Mary L. Babcock, the Associate Administrator for Administration and Nancy Potter, the Deputy Director for Budget and the Acting Budget Director.

The General Management and Administration account has two categories of activities classified by their method of funding. These are Salaries and Expenses, which receives an appropriation each fiscal year directly from Congress, and Advances and Reimbursements, funded through reimbursements from clients, both within the agency and from other Federal agencies and commissions.

The Salaries and Expenses portion provides for policy direction and coordination of all GSA programs. It also provides for Congressional and Public Affairs, the Board of Contract Appeals and the Indian Trust Accounting activities and government-wide acquisition policy.

The second category of funding within the GM&A account is known as Advances and Reimbursements. This reimbursable activity provides administrative support services to GSA and other Federal agencies and commissions.

The reimbursable support services consist of administrative, personnel, financial and budgetary support, legal advice and services, equal employment opportunity, procurement oversight and small business activities. Reimbursements from within the agency are derived from benefiting organizations, financed primarily by the GSA revolving fund. Administrative services provided to other Federal agencies and small commissions are similar in nature to those provided within the agency.

Finally, we are proud to say that GSA continues to work towards complete implementation of the Chief Financial Officers Act of 1990. As you are aware, GSA has been the recognized leader in audited financial statements and annual reports, and we continue the commitment to strengthen GSA's financial management. In an effort to improve GSA's financial management reporting, a senior working group has been established to study ways to improve the agency's financial management reporting.

This completes my summary, Mr. Chairman.

We would be pleased to respond in great detail to any questions the committee may have.

[Statement follows:]

STATEMENT BY WILLIAM B. EARLY, JR.
ACTING CHIEF FINANCIAL OFFICER,
GENERAL SERVICES ADMINISTRATION
BEFORE THE
SUBCOMMITTEE ON TREASURY, POSTAL SERVICE AND GENERAL
GOVERNMENT OF THE HOUSE COMMITTEE ON APPROPRIATIONS

Mr. Chairman and Members of the Subcommittee:

Before responding to your specific questions, I would like to take this opportunity to introduce Mary L. Babcock the Associate Administrator for Administration and Nancy L. Potter the Acting Director of Budget. I would now like to summarize the funding and activities of the General Management and Administration account.

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This completes my summary statement Mr. Chairman. We would be pleased to respond in greater detail to those areas of specific interest to the Subcommittee.

GAO'S TRANSITION REPORT

Mr. HOYER. Thank you.

I have a couple questions about the GAO report and I would like to have your comments on this report. You may want to do a relatively brief general answer and then perhaps, like we had discussed, amplify that.

Mr. EARLY. I don't believe GSA has taken active action on the transition report. We do have a management control system that was described earlier by the IG. We have an office that formally monitors internal and contract IG audits and the General Accounting Office audits. When we track internal and GAO audits, we require the program managers to have an action plan. That plan is also tracked and monitored and we are now doing follow-ups with those to make sure that they were in compliance with what they have indicated they have for compliance recommendations.

[CLERK'S NOTE.—The following information was provided by GSA:

That plan is also tracked and monitored and we are doing follow-up reviews to ensure that the actions taken have fully corrected the problems that were identified in the audit reports and the recommendations were implemented.

We also have a Management Control Council, as was indicated earlier, that is chaired by the Deputy Administrator. The Chief Financial Officer, the Associate Administrator for Administration, the Associate Administrator for Acquisition Policy and an ex officio member, meet monthly on that committee to look at agency management control risks, review the status of the compliance program with the audits and the GAO recommendations.

Mr. HOYER. I would be interested in seeing that. I think the new administrator would also be very interested in seeing that.

Mr. EARLY. I will make sure when that person gets on board, we get a status and track on those.

AUDIT RECOMMENDATION IMPLEMENTATION

Mr. HOYER. What improvements are being made in GSA's audit follow-up and resolution process to hold its services, regions and program offices more accountable for fully addressing audit findings and implementing the recommendations?

Mr. EARLY. We made a number of changes over the last two years. We had agreed with GAO and OMB that the audit follow-up program needed strengthening. We have reallocated resources, and almost doubled the staff to have a greater focus on the audit follow-up program.

We are increasing the focus with a new effort now of having desk officers to focus specifically by service. We require the services, regions, and staff offices to do a follow-up review to make sure that the recommendations that people are saying they are implementing, really are implemented.

We constituted the Management Control Council that I mentioned, which has been actively operating the last two years. GAO had indicated that the agency was tracking IG and GAO recommendations, but not their findings. The IG may find three or four different items, and in summary make a recommendation.

We would agree with the recommendations, track them, and put most of them in place. They said, however, we were not tracking individual findings, so we have changed our process and are doing that and also making sure that our regional people are addressing that also.

GAO has indicated that the focus in this area of looking at material weaknesses has been instigated primarily by the IG. We have been responding to them instead of taking a proactive response. With the new CFO on board as of last summer, there became an active interest by the past Deputy Administrator. During last fall and winter, we actively reviewed looking at the way we do business and saying: Are we at risk? Let's not feel bashful about identifying our problems.

So as the IG mentioned, we had a more extensive list this year that we were reporting to OMB on problems within the agency and are putting processes in place to deal with those. Many of them are going to be long term in solution.

PROPOSED REDUCTION IN ADMINISTRATIVE COSTS

Mr. HOYER. Mr. Early, would I be correct that you will probably be as involved in the 3 percent reduction in administrative costs?

Mr. EARLY. Yes, sir.

Mr. HOYER. We want to work closely with you. We want to effect that objective but do it so that it is a positive and not a negative.

Mr. EARLY. We are anxiously looking for the OMB pass back decisions. We expect them this afternoon.

GSA, as you know, has been focusing, really over the last 10 years, on how we do business, how we can do it differently. We think GSA has contributed a lot.

We were a 40,000 person agency in 1981; we are now a 20,000 person agency. We are half the size we used to be. We have closed regions. We have zonelized operations. Over the last number of years, we have done a lot of focusing on how to do our business differently and how to leverage our resources. We will continue to do that.

Some of the easy ways have probably already been addressed. The harder ones are going to be the ones that haven't been addressed.

Mr. HOYER. I presume that of the hundred thousand reduction in government-wide FTEs over the next four years, a small portion would be allocated to GSA.

Mr. EARLY. If they do it on a standard basis, we would be expecting a reduction of about 800 FTE over the next three to four years.

Mr. HOYER. What is the attrition rate?

Mr. EARLY. Our normal attrition rate has been in the neighborhood of 6 percent.

Mr. HOYER. Six percent.

Mr. EARLY. Recent data indicates a rate of 2 percent, a little slower in the last few years, but that is our regular attrition rate.

Mr. HOYER. Out of that, how many can you take by attrition? In other words, obviously you can't take 600 because you have to replace most of those people to get your job done. What is your pro-

jection as a reasonable expectation you can reduce through attrition?

My presumption, by the way, is we the government is going to do it all through attrition.

Mr. EARLY. Right. I think the desired intent really is, with the recent pay rates, that agencies' high three will be reached soon. We will see a number of people retire in part, we then need to focus on probably restructuring the way we do our jobs. This could enable us to say those jobs need not be replaced, or we can put those jobs in a pocket and reshuffle the people to continue to perform the function.

I know I have been doing that in my office. We are focusing in GSA on restructuring our jobs, of reengineering them by using automation. Again, earlier we heard what many have done by automating old office processes.

We need to look now at changing the way we do our business and we believe when we can get the automation, particularly in the financial office. This will enable GSA to reduce staff through attrition.

In our financial operation, our travel voucher and our payroll systems are old, and more manual than we would like them to be. We have some efforts to automate those programs, and we believe if we are successful, employment requirements will be reduced.

If we can change our systems to let automated vouchers, or a paperless system or electronic signatures occur, we can reduce the number of people who are processing vouchers for payment. But we have to get some technology. I agree with the Treasury and IG that automated signatures, or something like that, is successful, and with automated efforts, we can reduce employment. In those areas, we have turnover, in many cases, that we can put in our pocket.

REIMBURSABLE SERVICES

Mr. HOYER. Your current operation is to have various GSA organizations reimburse the General Management Account for a variety of "overhead" costs: budgeting, public relations, et cetera. Since other GSA organizations are captive and therefore have no alternative except to use your services, what incentive do you have to control the costs?

Mr. EARLY. We are approaching that in two fashions. The first one—the other appropriations that you deal with, pay about 10 percent of these costs. Our revolving funds, including the Public Buildings Service, pay the remaining 90 percent, and The Federal Supply Service, who you heard this morning, are not mandatory sources. They have to compete. They have to have good service and prices that are comparative. We know very well that the charges that we pass through them affect those prices.

[CLERK'S NOTE.—The following additional information was provided by GSA:]

We manage and treat our prices the same as we did under appropriations. GSA customers constantly review our charges to them. We are constantly concerned about the impact our charges have on their pricing structure.

Now that they are seriously focused on their pricing structure, they are coming back and telling us that we are concerned about your charges, we are concerned about the service delivery, so they are focusing on our product and we like that feedback.

Secondly, we have been operating under reimbursement the same as we did under an appropriation. The dollar amount that we look at is treated the same. When we allocate costs on a performance basis to our customers, we know that they have to budget for it and we then live with that amount.

OMB looks at this account in the same fashion as they did before. We go through the same rigors if we want one more employee or an initiative. To give you an example, the size that we are operating in 1993 is virtually the same as in 1992, about a $200,000 difference.

Mr. HOYER. Give me that figure again, Bill.

Mr. EARLY. It is a $130 million account in 1993, and we obligated $129.8 million the preceding year, and the pay and inflation for 1993 in that account was $5.2 million which we had to absorb in the way we were doing business.

Mr. HOYER. So essentially, about a 4 percent reduction.

Mr. EARLY. Yes.

And that is with the base looking forward to tight years ahead of us.

BOARD OF CONTRACT APPEALS/DESKTOP FOUR CONTRACT

Mr. HOYER. The Board of Contract Appeals comes under you; right?

Mr. EARLY. Yes, sir.

Mr. HOYER. Is the Board of Contract Appeals currently involved with the Air Force Desktop Four automated data processing contract appeal?

Mr. EARLY. I believe they have handled that case before. Mr. Daniels is here with the Board of Contract Appeals.

Mr. HOYER. What is the issue and what is your involvement?

Mr. DANIELS. We have had now the Desktop Four procurement before us on three different protests. Actually, it is 13 different protests but three different occasions.

A year ago in the fall was the first series of protests. There were eight protests against the award by the Air Force. The companies who protested all complained that there should have been negotiations with all the companies and there weren't. The Air Force admitted that it had done the wrong thing, went back, a lot more competitive, and made a second award last fall. That was protested by five different companies on the grounds that the Air Force had not made an appropriate assessment as to which firm or combination of firms offered the best value to the government, and also on the grounds that the firm selected for award, which was Zenith Data Systems, had offered some equipment, in particular, computer monitors, that did not meet a mandatory requirement of the solicitation.

That protest was also upheld, and just within the last couple of weeks, the Air Force has made yet a third award, this time to Zenith and also to Government Technology Systems, Incorporated.

We just last Friday had two protests filed against that award and the grounds are that Zenith offered the same monitors in its alternate proposal as it did in the proposal which received award before that; again, the Air Force did not do a proper analysis as to whether the best value was reached. There are also questions raised as to whether the firms that received the award are able, in terms of financial and production capabilities, of meeting schedules that are set in the contract.

Mr. HOYER. Has anybody made an analysis of how much this is all costing above and beyond the base contract price?

Mr. DANIELS. Not that I know of, sir, but we are talking here about a contract that has a value estimated at between $750 million and $1 billion, and there are a lot of companies that would like a contract for that much money. I think they are very interested in making sure that the money is spent wisely and reasonably.

Mr. HOYER. The companies are interested?

Mr. DANIELS. The companies.

Mr. HOYER. Of course the companies are interested in the money being spent with them.

Mr. DANIELS. Sir, as you know, we function essentially as a court. We have no control over who brings cases to us and what cases they are, and we just hear them as they come in.

Mr. HOYER. I understand that.

I realize I just asked this question, but how much you think that this has cost and have made an analysis of this?

Mr. DANIELS. We have not made an analysis.

Mr. HOYER. And would you not be in a position to make that analysis?

Mr. DANIELS. That is correct.

Mr. HOYER. Do you think the Inspector General would be? It would be interesting to know how much—admittedly it is a very large contract.

Mr. EARLY. It is a DOD contract, so it would be the DOD IG that would be looking at that, the costs involved and the delays.

Mr. HOYER. You didn't mention the phrase, I don't think, substantial transformation. Did you mention that phrase in your testimony?

Mr. DANIELS. No, I didn't. Substantial transformation is a requirement with the Trade Agreements Act of 1979. One of the mandatory requirements that the Air Force set out in the solicitation.

Mr. HOYER. This has to do with imported products.

Mr. DANIELS. Yes. Every company that offered a commercial item had to offer something that was either manufactured in the United States or was substantially transformed, which means made into a new and different commercial item in either the United States or some other country that is designated under the Trade Agreements Act.

Mr. HOYER. Do you get involved in that?

Mr. DANIELS. Yes. One of the allegations that was raised was that the computer monitors that Zenith was offering to the Air Force were made in countries that are not designated under the Trade Agreements Act and that the award was therefore illegal and the award was overturned on that ground.

Mr. HOYER. Did the Department of Treasury have any input into that, or findings, or testimony or conclusions?

Mr. DANIELS. No. Interestingly enough, even though it is long involved in the Customs Service and regulations that are issued, that are of particular importance to Treasury and Customs, nobody from either side, for example, neither the Air Force nor Zenith, nor any of the protesters brought in any witnesses from the Treasury Department or anybody with particular knowledge of Treasury regulations.

We are certainly expecting to hear some of that on this next round of protests.

OFFICE OF GOVERNMENTWIDE REAL PROPERTY POLICY

Mr. HOYER. Thank you.

Last year GSA requested $3.1 million and 10 work years to establish an Office of Governmentwide Real Property Policy. This office was to focus on government real property management. What has been done by this office?

Mr. EARLY. The office is a five-person office. It was initially funded in the Public Buildings Service, in the GMA and the budget for 1993. We were moving to elevating the focus into this account and we are asking to enlarge that office. The funds that we received in 1993 did not permit the enhancement to that function that we desired.

Jim Casey is with us today and he can elaborate on the functions of that office. It was alluded to this morning by Earl Jones. That is the function that he would like to have combined with his office on the real property asset management.

Did you want anybody to make further comment? Jim.

Mr. CASEY. Yes, sir, it is actually a seven-person office, not a five-person office, and we came to the GM&A account from PBS.

We came with and established a set of functions. We manage the worldwide inventory of all owned and leased real property throughout the world. Every year each agency reports to GSA their real property holdings and we report in summary form and detailed form on these listings.

One of our successes while we were part of the GM&A account was the revision of the system that collects the data, and also we are now looking at the data that the agencies submit to GSA. The requirement was established in 1962 or 1963. The system was very old and antiquated.

We have revised the system and we are working on refining the data.

The data that agencies submit is arguably at the bottom of the totem pole of importance in their real property missions. We are working with agencies to elevate that level of importance so that the administration and the agencies have data that they can manage their programs with.

We suspended publication of the worldwide report in 1989 and we are using 1990 data as our base year data to clean up. We will commence publication this year of the 1990, 1991 and 1992 worldwide inventories, which is submitted to Congress. After we publish

those reports, we will then start looking at the data elements that agencies are keeping.

Right now, the data doesn't reflect what an asset manager needs to know to manage his real property, and so that is the focus that we want to start taking with the inventory.

We also manage and provide agency governmentwide support for the foundation information for real property management system. It is a generic management information system that GSA developed and is made available free of charge to Federal agencies. It is now installed in over 34 agencies and bureaus. Agencies use the system to manage their real property in their GSA-controlled space, agency-controlled space, owned and leased.

CONCLUSION

Mr. HOYER. Thank you.

REIMBURSEMENTS FROM OTHER GSA GROUPS

Question. How do you determine what will be paid to the General Management and Administration Reimbursement account for services provided and how the organizations are charged?

Answer. The budget of the General Management and Administration reimbursable staff support overhead reflects the costs for payroll and other services as developed and approved through the review process by the Associate Administrator for Administration, the Chief Financial Officer, Deputy Regional Administrators, the Controllers of the GSA Services and the Office of Management and Budget. Changes from year to year are based on the requirements of the organizations we support, changes in laws or regulations and the cost of technological advances necessary for cost effective operations.

Organizations are charged by making payment calculations for these centralized administrative services which are based upon a combination of available program workload and budgeted FTE workyear levels. This method for calculating cost distribution was developed with the idea of minimizing resources and processes necessary to obtain the distribution. This Committee, which approved full conversion of these centralized administrative services from a direct appropriation to reimbursable funding approved this cost distribution methodology.

[Additional questions submitted for the record by Congressman and the answers thereto follow:]

FLEXIPLACE PROGRAM

Question. How many Federal employees are participating in Flexiplace programs (there were about 600 in 1992)? How many GSA employees are participating in Flexiplace (there were 50 in 1992)?

Answer. There are approximately 900 employees from 14 Federal agencies participating in the Flexiplace program. GSA has approximately 64 program participants.

Question. How well is the Flexiplace system working?

Answer. The final evaluation report on the work-at-home component of Flexiplace indicates that the program is a success. The evaluation report was forwarded to Frank Hodsoll, then Chairman of the President's Council on Management Improvement (PCMI), in December 1992. The report recommended that the PCMI endorse Flexiplace as a permanent work option for Federal employees.

There is no legal prohibition against Flexible workplace arrangements. Each agency has the option to establish permanent Flexiplace programs now. No regulations need to be revised or implemented, and prior approval from OPM is not required.

As co-chairs of the pilot project, GSA and OPM continue to provide technical assistance to other Federal agencies on the technological and personnel aspects of Flexiplace.

The work-at-home component of Flexiplace, which began in January 1990, should be distinguished from satellite centers for telecommuters and/or telework centers. When the Flexiplace Pilot program was established, satellite work centers were envisioned as part of the overall pilot test and incorporated in national guidelines for

the pilot. Satellite centers are defined as a geographically convenient extension of a headquarters office. In these situations, employees would have facilities comparable to those in the headquarters office environment.

Many Federal agencies have satellite offices located in remote or rural areas. They are typically called field or area offices and tend to support a single agency function. The remote office serves as the Official duty station for agency employees. The satellite concept also involves situations in which several Federal agencies occupy the same building. Again, the remote location is the official duty station for respective agency employees.

The proposed concept, satellite work centers designed specifically for telecommuters, is an expansion of our current view of satellite centers. Telecommuting and telework centers are somewhat synonymous; both imply the use of high-tech telecommunications and computers to perform work from a remote location.

Question. Is GSA actively supporting Flexiplace programs throughout the Federal government? How is GSA publicizing the Flexiplace concept?

Answer. GSA continues to provide support to the work-at-home component of Flexiplace in the area of telecommunications. It is our understanding that OPM will issue revised guidelines and related information materials (on the human resources aspects) to Federal agencies under the Federal Personnel Manual System.

Question. Could you provide this Committee detailed information about the usage rates at the existing Flexiplace Telecommuting centers?

Answer. A distinction should be drawn between the two-year national Flexiplace pilot program and a related activity involving Telecommuting centers in the Washington, DC area. The existing Flexiplace program operates exclusively through a work-at-home arrangement between the employee and his or her agency. As an alternative to commuting to a downtown location, the employee remains at home and typically uses a telephone, computer and modem to perform work assignments away from the office telecommuting one or more days each week. Separate and apart from the work-at-home Flexiplace arrangement, GSA is currently working with Federal and local officials to establish telecommuting centers in Northwestern Virginia, Southern Maryland, the Eastern Shore of Maryland, and Hagerstown, Maryland. GSA has also held preliminary discussions with Federal Personnel Officers to brief them on the proposed telecommuting centers. Once the centers are established—perhaps as early as November, 1993—residents of these communities who currently travel long distances to their Federal jobs in Washington will be able to report to a nearby center one day or more each week as an alternative to the time-consuming commute. Although we have no usage rate data at this time, we plan to gather this type of information as part of the telecommuting center pilot project evaluation.

Funding Improvements in Financial Accounting Systems

Question. Due to the Chief Financial Officer Act, Federal agencies are required to upgrade financial accounting systems. What has GSA done to improve its systems and at what cost?

Answer. GSA has been the recognized leader in audited financial statements and annual reports and we continue our commitment to strengthen GSA's financial management. Although our financial process is strong enough to enable the agency to receive its fourth straight unqualified audit opinion on its financial statements, it does have financial and accounting systems in need of improvement or replacement due to their age and the need to make them more useful to managers. In an effort to improve our financial reporting, a senior working group has been established to study ways to improve the agency's financial management reporting. Our initial cost estimate for planning, designing, evaluating and reviewing the requirements to automate our labor intensive manual procedures is in excess of $3,000,000.

Question. One method of funding these improvements has been used by another Subcommittee: allowing unobligated balances to be deposited in a working capital fund for the express use of upgrading accounting systems, rather than letting the balances "lapse" into the general Treasury account. Have you looked at this method and if so, what is your evaluation of using this method of GSA?

Answer. Yes, we have reviewed the language enacted in the fiscal year 1992 appropriations act for the Department of Justice, Public Law 102-140, 105 Stat 784, "Working Capital Fund". This language provides in part that ". . . for fiscal year 1992 and thereafter, at no later than the end of the fifth fiscal year after the fiscal year for which funds are appropriated or otherwise made available, unobligated balances of appropriations available to the Department of Justice during such fiscal year may be transferred into the capital account of the Working Capital Fund to be available for the departmentwide acquisition of capital equipment, . . ."

This method would be very beneficial to GSA in accomplishing much needed agency-wide computer and accounting systems upgrades, and for financial management and management information systems needed to implement the Chief Financial Officers Act. The annual amount lapsing in GSA's appropriations accounts averages $5 million which could effectively be used for these purposes agency-wide if we were provided similar authority.

GSA's Working Capital Fund finances printing and duplicating services only on a reimbursable basis under its authorizing legislation, whereas Department of Justice's Working Capital Fund finances administrative services that can be performed more efficiently at the Department level, on a reimbursable basis. Both of these revolving funds are no-year in nature.

It would not be appropriate for us to use our Working Capital Fund for this purpose since it is only available for printing and duplicating services. However, a separate agency-wide account could be established or the General Management and Administration direct appropriation account could be used for this purpose if we were provided similar authority. Since the GMA direct account is annual the authority would need to specify that the unobligated balances transferred into this account are no-year.

Question. What rules or regulations would need to be implemented to ensure that this process would not be abused?

Answer. In this regard, the Department of Justice language provides ". . . That any proposed use of these transferred funds in fiscal year 1992 and thereafter shall only be made after notification to the Committees on Appropriations of the House and Senate." This provision could be included in similar language that might be considered for enactment for GSA.

In addition, a specific procedure would be incorporated in GSA's Budget Administration Handbook on the administration of the funds transferred from lapsed accounts, and an accounting system established to record obligations and outlays incurred from these funds under specific allowance documents. The agency-wide use of these funds would be determined on a priority basis for both appropriation and revolving fund programs by GSA's Council of Controllers established by the Chief Financial Officer.

[CLERK'S NOTE.—The following additional information was provided by the General Services Administration:]

Board of Contract Appeals

General Services Administration
Washington, D.C. 20405

February 24, 1993

Honorable Steny H. Hoyer
Chairman
Subcommittee on Treasury, Postal Service,
and General Government
Committee on Appropriations
U. S. House of Representatives
Room H-164, The Capitol
Washington, DC 20515

Dear Mr. Chairman:

At last Thursday's hearing on the General Services Administration's General Management and Administration account, you asked me about the cost of the various protests against the Department of the Air Force's awards of contracts in the Desktop IV microcomputer procurement. This letter supplements the answer I provided at the time.

Desktop IV has generated more protests than any other procurement in the eight years that the General Services Board of Contract Appeals has been authorized to hear challenges to the Government's conduct of computer and telecommunications procurements. Desktop IV is also unusual in that the agency has twice made improper awards in the same procurement.

As I stated at the hearing, the Board is not in a position to estimate the costs resulting from the three rounds of protests. After speaking with the judge who has heard the cases, however, I can give you some information as to the benefits to the Air Force and the taxpayers. The first awards had an estimated value of $1.2 billion; the second had an estimated value of $740 million; and the third have an estimated value of $724 million -- all for the same kinds and quantities of equipment and services. At the same time that the offerors have reduced their prices, they have modified their proposals to provide the Air Force with considerably faster and more powerful computers than they had offered initially.

If you have any further questions about the work of the General Services Board of Contract Appeals, I would be pleased to answer them.

Sincerely yours,

STEPHEN M. DANIELS
Chairman

Mr. HOYER. We will insert the overview material in the record.
[The information follows:]

I. MISSION AND RESOURCES

GENERAL MANAGEMENT AND ADMINISTRATION RESOURCES SUMMARY
(Dollars in Thousands)

	FY 1992 Actual	FY 1993 Estimate
Appropriations:		
Salaries and Expenses, General Management and Administration (Direct)	$29,795	$34,000
Advances and Reimbursements, General Management and Administration	$142,932	$147,776
Employment (FTE)	2,353	2,317

The General Management and Administration (GM&A) account's mission is financed through a combination of reimbursements from other accounts, and by direct appropriation. The Treasury, Postal Service and General Government appropriation provides a direct appropriation for functions performed under GM&A, Salaries and Expenses. The largest portion of the account is funded through reimbursements from other GSA organizations and from other agencies, in exchange for services provided under the Advances and Reimbursements category of GM&A.

Salaries and Expenses (Direct).

The Salaries and Expenses (Direct) programs represent the appropriated portion of GM&A and provide for the following GSA activities: policy direction and coordination of all GSA programs through the Administrator, Deputy Administrator, Regional Administrators, and the offices of Congressional and Public Affairs; agencywide acquisition policy, planning and coordination; and management of Federal real property as it relates to asset management.

The Salaries and Expenses appropriation provides funding for three major categories of activity: the Office of Indian Trust Accounting, which provides accounting services to the Department of Justice in defense of Indian Tribal Claims against the U.S. government; the Board of Contract Appeals for hearing and deciding disputes related to Government contracts awarded by GSA and other government agencies and commissions; and Policy Direction organizations, composed of the Offices of the Administrator, Policy Analysis, Congressional Affairs, Public Affairs, the Regulatory Information Service Center, Acquisition Policy, Business Industry and Governmental Affairs, and the Regional Administrators.

Advances and Reimbursements

The Advances and Reimbursements programs of GM&A provide for centralized internal administrative support services through reimbursable funding from GSA's benefiting accounts. This account also includes other reimbursable programs which provide a variety of services such as administrative, financial, legal, personnel, training, and procurement services, on a reimbursable basis, to independent commissions and Federal agencies.

The Advances and Reimbursements portion of GM&A includes the following categories: Policy Direction, the Chief Financial Officer, the Office of Administration, and the Board of Contract Appeals. Policy Direction includes the offices of the General Counsel, Ethics and Civil Rights, Regional Equal Employment Opportunity Offices, Regional Acquisition Management, the Business Service Centers, Small and Disadvantaged Business Utilization, Graphics, and the Office of Business, Industry and Governmental Affairs. These offices provide for the formulation and execution of agency policy, legal advice and services, acquisition process oversight, and many other administrative, management, and policy support functions for agency and external clients.

The Office of the Chief Financial Officer, as designated

I. MISSION AND RESOURCES (Continued)

in the CFO Act, provides for overall GSA budgetary policy and liaison activities with Congress and OMB; management review and oversight of financial management systems and administers the Agency's commercial activities program and other privatization efforts. The CFO also provides accounting and financial support agencywide and to other Federal agencies and commissions.

The Office of Administration is responsible for the planning, implementation and coordination of all GSA activities related to personnel management, including labor-management relations, training, organization improvement, cost reduction, productivity measurement and the procurement of management consulting services by contract. This office coordinates all activities of GSA related to administrative management, and the management of the GSA printing and distribution program. The Office of Administration also provides policy, guidance, and oversees financial planning, budget formulation and execution, and resources management for various GM&A Staff Offices. It is responsible for managing the GSA Audit Resolution and Followup System, and other management control systems, and is responsible for the management, development, review, analysis, coordination, and control of GSA-related Governmentwide quality management programs. The Office of Administration also administers the GSA Interagency Training Center which offers training to GSA and other Federal, State and local Government agencies.

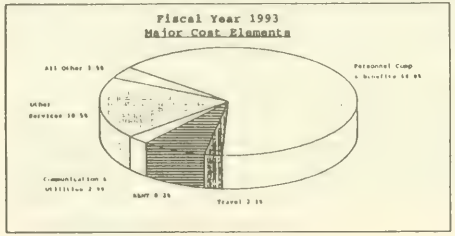
The Board of Contract Appeals provides reimbursable support in the adjudication of disputes related to Government contracts entered into by the Departments of Treasury, Commerce, Education and other government agencies and commissions.

I. MISSION AND RESOURCES (Continued)

SALARIES AND EXPENSES (DIRECT), GENERAL MANAGEMENT AND ADMINISTRATION
(Dollars in Thousands)

	FY 1992 Actual	FY 1993 Estimate
Policy Direction	$21,575	$25,480
Indian Trust Accounting	3,445	3,564
Board of Contract Appeals	4,775	4,956
Major Equipment Acquisitions/Systems Development	0	0
Total Budget Authority	$29,795	$34,000
Employment (FTE)	321	313

The General Management and Administration, Salaries and Expenses (Direct) account is funded as a direct appropriation from Congress within the Treasury, Postal Service and General Government Appropriation. These resources provide policy direction and coordination of all GSA programs, agencywide acquisition policy, planning and coordination and management of Federal real property asset management. This appropriation also provides for Indian Trust Accounting activities in accordance with U.S. Claims Court rulings and in conjunction with the U.S. Department of Justice, and the GSA Board of Contract Appeals. The distribution of funds by major cost element follows:



The increase in funding for Policy Direction activities in fiscal year 1993 is the result of the addition of the Office of Governmentwide Real Property Policy to the GM&A Direct account. This activity was part of the Public Building Service (PBS) prior to fiscal year 1992, when it was transferred to GM&A.

POLICY DIRECTION

1. Executive Direction - The Office of the Administrator provides policy and direction to all Regional Administrators and for all functions assigned to GSA. The Office of Public Affairs acts as liaison between the media and GSA officials and is responsible for media relations. The Office of Congressional and Intergovernmental Affairs acts as liaison between Agency officials and Members of Congress.

2. Office of Policy Analysis - Performs high priority studies and other projects of unusual complexity for the Administrator. Studies generally involve a number of Services and Staff Offices and frequently involve coordination with the Office of Management and Budget. Work products of the Office can result in changes to GSA policy, changes to the organization, and legislative initiatives.

3. Office of Governmentwide Real Property Policy - Responsible for the management of Federal real property for both Governmentwide and agency-specific activities related to asset management. The Office provides

I. MISSION AND RESOURCES (Continued)

guidance for the real property operations within the agency, as well as other Federal agencies that acquire, manage, hold and/or dispose of land or real estate. It is responsible for the continued development and implementation of the Foundation Information for Real Property Management (FIRM) system. In addition, this office will assist in providing for unified space planning, will propose legislation, and pursue other initiatives to improve the overall effectiveness and efficiency of real property management.

4. Office of Acquisition Policy - Along with DOD and NASA, develops and maintains the Federal Acquisition Regulation (FAR) which is the primary regulation for use by all Federal agencies in their acquisition of supplies and services. The FAR Secretariat provides centralized support and coordination functions to the Civilian Acquisition Council and the Defense Acquisition Regulatory Council. Develops an acquisition/contracting career management program and maintains a Contracting Officer Warrant program to ensure the development of quality contracting personnel. Conducts intra- and inter-agency pre-award and post-award review of purchases and leases to ascertain that awards are in compliance with applicable laws, regulations, and policies, and represent sound business judgment. This office debars and suspends contractors who demonstrate a lack of integrity and trustworthiness and maintains the Governmentwide List of Parties Excluded from Federal Procurement and Non-procurement Programs whose coverage has been expanded to communicate information to Federal, State, and local Governments regarding judicial orders denying benefits to individuals for violations of Federal or State drug trafficking or possession laws, pursuant to Section 5301 of Public Law 100-690, the Anti-Drug Abuse Act of 1988. Responsible for compliance with Section 5164 of the Omnibus Trade and Competitiveness Act of 1988 that designated the metric system as the preferred system of weights and measures for the U.S. Trade and Commerce.

5. Office of Business, Industry, and Governmental Affairs - The Office serves as an advocate and catalyst for initiatives to support the agency's mission and improve the quality of government. It provides agencywide liaison between GSA, its customers, suppliers and the general public. It identifies issues important to these groups through interface with constituents by convening an annual Partnership in Administration Conference, Business and Client Advisory Boards, public and private sector focus groups and roundtable discussions. In its role as catalyst, the Office initiates activities to generate agency involvement and interest in addressing important issues in our business areas. In fiscal year 1993 four new policy-related initiatives are underway. The Office also facilitates conflict resolution and agency public relations through its Ombudsman Staff, which provides a single point of contact within the agency to assist members of the general public, government agencies, industry, and the private sector regarding GSA's policies, procedures, processes and practices.

6. Regulatory Information Service Center - Responsible for compiling and analyzing data on both Governmentwide and agency-specific Federal regulatory, information resources management, and statistical activities. Prepares reports and responds to requests from the public and private sectors.

INDIAN TRUST ACCOUNTING

This division of the Chief Financial Officer is responsible for providing accounting services to the Department of Justice on Indian Trust Funds and assisting the defense against Indian Tribal claims by providing accounting reports, other evidential materials, and expert witness testimony pertaining to accounting policies, practices, and procedures.

Workload in the Indian Trust Accounting function is generated by the decisions of the U.S. Claims Court and controlled (assigned) by the Department of Justice (DOJ). Many cases are assigned for limited accounting work for the purpose of negotiated settlements or for DOJ responses to plaintiff's exceptions and interrogatories. Eventually these cases may require additional accounting work based on motions filed by plaintiffs.

Trial preparation generally involves the review and analysis of plaintiff's accounting reports and exhibits and the preparation of rebuttal evidence. During trials, Indian Trust Accounting Division personnel provide expert witness testimony on the accounting reports rendered.

Once a case has been tried, the amount awarded to a tribe may be reduced by certain gratuity expenditures made by the Government on behalf of a tribe. This phase requires additional work to analyze and identify allowable offsets against awards.

Cases have varied from a simple request to provide supporting documents and research material involving less than one staff-year to a full accounting of all tribal funds involving as much as 40 staff-years of work.

I. MISSION AND RESOURCES (Continued)

funds involving as much as 40 staff-years of work.

BOARD OF CONTRACT APPEALS

The Board of Contract Appeals was established within GSA as an independent administrative trial court pursuant to the provisions of the Contract Disputes Act of 1978 (P.L. 95-563). In accordance with this Act, the Board has responsibility to hear and decide disputes brought by contractors which relate to Government contracts awarded by GSA and other Government agencies and commissions. In addition, the Board serves as an administrative trial court for resolution of ADP bid protests under the Competition in Contracting Act, Title VII of the Deficit Reduction Act (P.L. 98-369). The Board also is an administrative trial court pursuant to the requirements of the Administrative Procedures Act for suspension and debarment matters and conducts proceedings with respect to post employment restrictions pursuant to the Ethics in Government Act. Workload in the Board of Contract Appeals is distributed as follows:

	FY 1993 Actual	FY 1993 Program
Contract Appeals Cases:		
Received	279	350
Closed	301	400
Pending	284	264
Bid Protests Cases:		
Received	347	350
Closed	329	350
Pending	98	82

MAJOR EQUIPMENT ACQUISITIONS/SYSTEMS DEVELOPMENT:

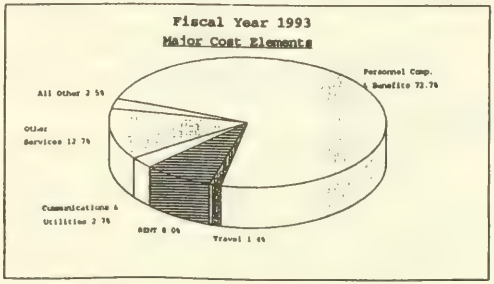
This activity provides funding for a no-year appropriation to the GM&A account for one time major expenditures for GM&A appropriated activities and GM&A reimbursable centralized support activities.

I. MISSION AND RESOURCES (Continued)

GENERAL MANAGEMENT AND ADMINISTRATION (INTERNAL CENTRALIZED ADMINISTRATIVE SUPPORT)
(Dollars in Thousands)

	FY 1992 Actual	FY 1993 Estimate
Policy Direction	$23,636	$23,032
Chief Financial Officer	$57,157	$57,985
Administration	$48,112	$48,996
Total	$128,905	$130,013
Employment (FTE)	1,935	1,897

Section 601 of the Economy Act of 1932, as amended, provides basic authority for reimbursable services to be performed by Government agencies. In accordance with this authority, the General Services Administration provides reimbursable staff support services to GSA organizations under three major activities.



POLICY DIRECTION

a) Office of General Counsel - Provides legal advice and service to all GSA nationwide programs including litigation; contract support; legislation and regulation development; review and analysis; and legal advice and guidance required in carrying out the Agency's day-to-day operations.

b) Office of Ethics and Civil Rights - Plans, provides and administers standards of conduct, and conflict of interest programs for the agency. Develops agency civil rights policy; plans, develops and administers GSA's Equal Employment Opportunity (EEO) Program, including EEO counseling and complaints processing and adjudication; manages a government wide contract to investigate EEO complaints; plans, develops, and administers a program which ensures that GSA's Federal Assistance Program adheres to civil rights law as it relates to the distribution of property donated by GSA, as required by Executive Order 12250; and plans, develops, and administers GSA's Federally Conducted Program to ensure that GSA's programs and activities are accessible to individuals with handicapped conditions.

c) Regional Equal Employment Opportunity (EEO) Offices - Provides a discrimination counseling and complaints program in each region. Prepares proposed

agency dispositions and acts as the agency liaison to all parties on complaints, including the EEOC, investigators, and complainants' representatives.

d) Regional Acquisition Management - Provides Contract Clearance and Procurement Management Review (CC/PMR) for GSA organizations. The CC/PMR function reviews regional contracting operations including leasing, sales, and contract administration for compliance with applicable laws, regulations, and procedures. Administers GSA's Contracting Officer Warrant and Certification Programs. Conducts training and serves as coordinator for the General Services Procurement Data System.

e) Business Service Centers - Provides information, assistance and counseling to companies who are current or prospective commercial suppliers to GSA including small, minority and women and handicapped-owned businesses, as well as those firms located in labor surplus areas. Also, manages Regional Procurement Preference Program.

f) Office of Small and Disadvantaged Business Utilization - Performs the required functions of the Small Business Investment Act of 1958 (P.L. 85-699), as amended. Responsible for implementation and execution of the functions and duties under sections 8 and 15 of P.L. 95-507; and the Competitive Demonstration Program, forecasting, and goaling as set forth in the Business Opportunity Development Reform Act of 1988 (P.L. 100-656). Develops and coordinates GSA policies and programs relating to the procurement preference program. In accordance with Executive Order 12073, coordinates Government wide implementation of the Labor Surplus Area program. Provides primary staff support for GSA's member on the President's Committee for the Purchase from the Blind and Other Severely Handicapped, and provides oversight of the Javits Wagner O'Day and Federal Prison Industries programs in GSA. Provides policy direction and managerial oversight of GSA's Business Service Centers. Provides assistance to Minority Business Enterprise program, Women Business Enterprise program, and the Rural Area Development program.

g) Graphics - Provides comprehensive graphics services to all organizations within GSA and to Presidential commissions and committees, including the development and establishment of standards and criteria governing the provisions of graphics services.

CHIEF FINANCIAL OFFICER

a) Immediate Office - The Chief Financial Officer (CFO) provides for overall GSA financial and budgetary policy and liaison activities with Congress, OMB and other Federal agencies and program supervision for the GSA Office of Budget, Office of Financial Management, the Office of Finance, and the new Office of Financial Systems Oversight. The CFO has instituted a new agencywide emphasis in accomplishing on-going detailed financial reviews; providing policy for acquiring and using financial information systems; measuring business performance, developing trend analysis, and review of rate setting processes; and assuring timely information on performance status of major contracts. The CFO chairs the Council of Controllers and is involved in recruiting, selecting, training, and appraisal of financial management personnel.

b) Office of Budget - Carries out responsibilities in centralized budget administration to ensure maximum utilization of available resources. Specifically, the Office of Budget recommends overall budgetary policies and prescribes guidelines and procedures within which budget operations throughout GSA will be administered and provides liaison with other offices within GSA, the Office of Management and Budget, and Appropriation and other Congressional Committees and their staff on budgetary matters; performs final review of all budget estimates, both annual and supplemental, for conformance with policies and guidelines, technical accuracy and impact; analyzes, reviews and processes financial plans, apportionment requests as well as reviews legislation and regulations for budgetary impact; monitors and controls fund allocations, obligations, and outlays to prevent violation of the Anti-deficiency Act; controls agency workyear ceilings; conducts analyses and special studies of all program areas to evaluate performance and possible alternative methods of effective resource allocation and utilization and constantly reviews program progress against approved plans and current policies, recommending appropriate changes in plans or operations when necessary; and administers the Agency's commercial activities program and other privatization efforts.

c) Office of Finance - This Office is responsible for the design, development, maintenance and operation of GSA's primary accounting system, the National Electronic Accounting and Reporting (NEAR) System. Basic activities include billing, collecting, paying, reporting and payrolling for over 120 annual, transfer, and no-year appropriations, and revolving fund accounts. The Office of Finance also reviews prospective contractors to minimize financial risk and otherwise protect the Government's interests and executes the financial provisions of contracts and other obligations held by the

Government. See attached workload data exhibit.

d) Office of Financial Management - This Office is responsible for verifying the accuracy of the Agency's financial management information and working to improve the quality of that information. This responsibility includes conducting periodic reviews of the financial results of GSA's primary revolving funds and providing the Administrator with reports and analyses on operating results and other financial management issues. The Office is also responsible for conducting rate reviews of the rates and rate setting processes of all GSA programs, and in coordinating the development of measuable goals, objectives and business performance measures to assist internal and external management assess program operations. The office operates GSA's executive information system, ExecuTrac, and provides administrative support for the General Management Reviews. The Chief Financial Officer's strategic planning process and certain administrative functions are controlled by the Office of Financial Management.

e) Office of Financial Systems Oversight -This Office is responsible for managing and approving the design, development and enhancement of agency-wide and Services and Staff Office's accounting, financial, and asset management systems. Provides advice and direction to program managers on financial management systems matters, oversees the development of GSA's financial management systems, and assures the quality of financial information. Specifically, the office reviews the financial systems architecture and individual financial systems, and identifies and recommends modifications to increase cost effectiveness. In addition, it provides policy guidance and oversight of agency's delegated financial management systems personnel, activities and operations.

ADMINISTRATION

a) Associate Administrator for Administration - Provides for overall supervision and direction of the Office of Administration programs , as well as analytical and resource management support for the Office of the Administrator and the Staff Offices.

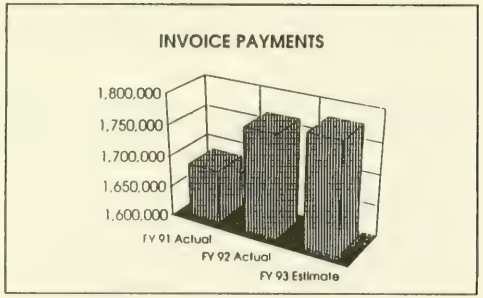
b) Personnel - Develops, implements and administers a nationwide personnel management system that is consistent with applicable laws and regulations. Specific functions include: staffing, recruiting, employee development, employee relations, labor relations, position classification, performance appraisal, pay and leave administration, and evaluation of personnel management. Responsibilities also consist of developing, implementing and maintaining an automated Personnel Information Resources System (PIRS) that supports day-to-day personnel operations and provides workforce information to support agency programs in the areas of personnel, civil rights, training and security; provides information required by OPM and EOC and provides information needed for position control, organization production and manpower utilization.

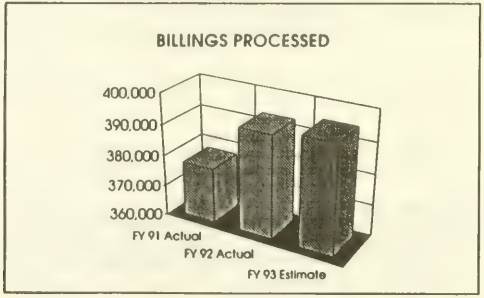
c) Administrative Programs and Support - Provides for the agencywide management of GSA's administrative operations including telecommunications, motor vehicles, mail, property, space, procurement and other administrative services. Responsible for the continuity of GSA's regulatory initiatives. Develops policies for and administers the management of the Agency's Freedom of Information Act (FOIA), Privacy Act, reports, records, forms, and directives programs. Provides administrative support to 1,395 Congressional and district offices. Plans and administers programs in organization, internal delegations of authority, and position management. In accordance with Public Law 93-288 and Executive Orders 12656 and 12472, provides GSA-wide planning and implementation activities in support of Federal agencies in their emergency and major disaster programs. Serves as the Regional Emergency Coordinator for the agency for disasters, catastrophes, and national emergencies. Responsible for implementing Governmentwide initiatives assigned to the GSA Administrator and serves as the Committee Management Secretariat pursuant to the Federal Advisory Committee Act of 1972, P.L.92-463. Provides assistance, advice, guidance and training to Federal departments and agencies to ensure their compliance with the Act. Evaluates the effectiveness of Federal Advisory Committees sponsored by Executive Branch Agencies. compliance with the Federal Advisory Committee Act. Evaluates the effectiveness of Federal Advisory Committees sponsored by Executive Branch Agencies through operational reviews of committee activities and by completing the annual comprehensive review required by the Act. Assists OMB in the preparation of legislative and executive orders needed to create new groups and/or terminate committees who have fulfilled their missions.

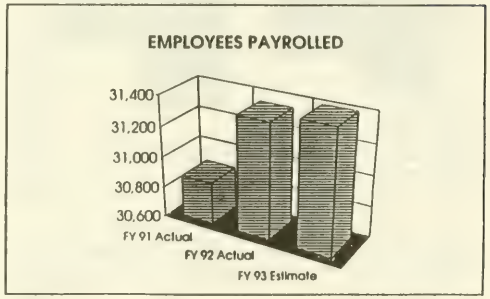
d) Quality Management and Training - Plans, directs, and coordinates the agencywide quality management process, career development and training programs, and governmentwide training in GSA mission and functions. This includes providing guidance and support in the areas of quality management, managing and directing the GSA suggestion program as an integral part of the agency's quality improvement process; developing agency training

. SELECTED WORKLOAD DATA

The three-year trend analyses for the Office of Finance is as follows: graphic illustrations of workload data for Invoice Payments, Billings Processed, and Employees Payrolled for Fiscal Years 1991 through 1993.

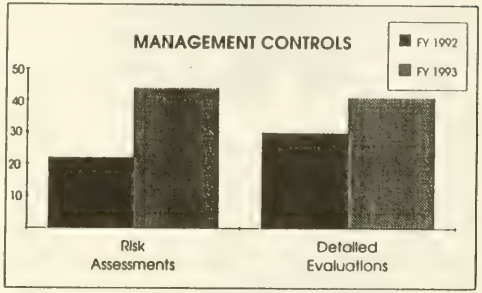






policy, guidelines, assessments, and developing career employees.

e) Management Control and Evaluation - Serves as a liaison with the General Accounting Office (GAO) and the Office of the Inspector General for monitoring and coordinating the resolution and implementation of internal audit recommendations and contract audit management decisions as required by law. Responsible for implementation, on an agencywide basis, of OMB Circular A-123 and Section 2 of the Federal Manager's Financial Integrity Act. Develops, implements and ensures agency compliance with policies and procedures pertaining to personnel, industrial, physical and document security.



II. INITIATIVES AND ISSUES (Continued)

ISSUE: Complete GSA's implementation of the Chief Financial Officers Act of 1990 (the CFO Act).

DISCUSSION: The CFO Act requires the establishment of a Chief Financial Officer (CFO) in each agency to oversee all agency financial management activities and improve the systems of accounting, financial management and internal controls. GSA's CFO operates a central accounting and budgetary system which produces GSA's official financial reports. Daily accounting operations and program financial management activities are performed by organizations not under the direct control of the CFO, although strong "dotted line" reporting relationships exists. Recognizing that GSA's financial management systems must be integrated more effectively to improve information quality and provide operational efficiencies, the Office of Financial Management Systems has been established. GSA is a recognized leader in audited financial statements and annual reports, and has an annual CFO's 5-Year Financial Management Plan and Status Report. Some reviews have been made by the CFO of the fees, rents and other charges assessed by GSA.

ACTION REQUIRED: A continued commitment to strengthen GSA's financial management is needed.

ISSUE: An agency-wide material weakness was declared in the area of financial management reporting in the 1992 Federal Managers' Financial Integrity Act Assurance Statement.

DISCUSSION: At year-end GSA's financial reports are generally complete and accurate as evidenced by the very successful audit opinions given in recent years. However, during the year, there are a number of deficiencies in financial reporting at the program level. These preclude managers from having the appropriately detailed, accurate and complete reports on which to gauge financial performance and to take appropriate actions. The most recent example is in an Information Resources Management Service (IRMS) program.

Arthur Andersen & Company's Management Letter on the audit of our fiscal year 1991 financial statements cited a program within the IRMS Information Technology Fund as a "significant deficiency." Although not listed as a material weakness by Arthur Andersen, we are concerned that this issue may not be an isolated instance, and that our reports do not properly support managers in their decision-making on individual programs during the year.

One of the primary causes of problems uncovered to date in the IRMS Federal Information Systems Support Program (FISSP) has been a failure to perform reconciliations on a timely and complete basis. This is a responsibility shared by program and financial offices. However, it is our opinion that, for year-end reporting, the reconciliations completed and reports do appear adequate to ensure that our consolidated financial statements should continue to receive unqualified audit opinions.

Responding to the Arthur Andersen report, the IRMS and CFO offices began to develop a plan to respond to the specific FISSP program issue last summer. Upon further study, that effort was expanded to include a review of all GSA programs. A Financial Management Reporting Work Group was established in the CFO Office to develop and implement the agency-wide corrective action plan responding to the material weakness declared in the 1992 Assurance Letter. Representatives from the Service/Staff Offices Controllers will complete the membership of the work group.

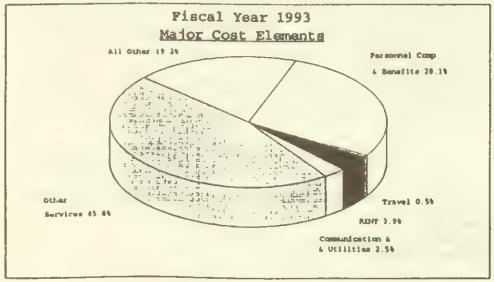
ACTION REQUIRED: Proceed with work group action plan and ensure that status reports are made periodically on the progress of the study effort.

I. MISSION AND RESOURCES (Continued)

GENERAL MANAGEMENT AND ADMINISTRATION (OTHER REIMBURSABLE PROGRAMS)
(Dollars in Thousands)

	FY 1992 Actual	FY 1993 Estimate
Policy Direction	$1,199	$2,020
Administration	$11,096	$13,867
Chief Financial Officer	$1,705	$1,856
Board of Contract Appeals	$27	$20
Total	$14,027	$17,763
Employment (FTE)	97	107

Section 601 of the Economy Act of 1932, as amended, provides basic authority for reimbursable services to be performed by Government agencies. In accordance with this authority, this activity provides reimbursable support services. A breakdown of the major cost elements is shown below:



POLICY DIRECTION

a) Office of General Counsel - Provides legal services to National Archives and Records Administration (NARA), field offices, small agencies, and Presidential boards, committees and commissions.

b) Office of Business, Industry, and Governmental Affairs - Provides administrative and procurement services to independent commissions and small agencies. Additionally, administers and holds national Partnership in Administration (PIA) conferences which give federal agencies an opportunity to promote goods and services that they provide to other federal agencies through exhibits and seminars.

c) Graphics - Provides comprehensive graphics services to Presidential commissions and committees, including the development and establishment of standards and criteria governing the provisions of graphics services.

d) Executive Direction - Participates in the Intergovernmental Personnel Act (IPA) program, which provides the opportunity to enhance management level employees knowledge of the policy and operating environments found in a major state or local government agency having broad responsibilities for highly complex programs. Expands their knowledge of the nation's federal system and

contributes to the improvement of decision-making managers in executing GSA's diverse missions.

e) Office of Governmentwide Real Property Policy - Provides for the reimbursement of the cost of expansion and further development of the Foundation Information for Real Property Management (FIRM) system as requested by other executive agencies.

CHIEF FINANCIAL OFFICER

a) Office of Budget - Provides comprehensive budgetary support to independent commissions in all aspects of budget formulation and execution, to include special requirements of the Office of Management and Budget and Congressional appropriation committees.

b) Office of Finance - Provides accounting and financial support through cross-servicing agreements to more than 50 independent commissions, committees, study groups and special offices created by the President and Congress. Cross-servicing agreements are negotiated annually between each client and GSA.

ADMINISTRATION

a) Personnel - Provides personnel support services to independent commissions and small agencies.

b) Administrative Programs and Support - Provides for the reimbursement of the cost of furniture and furnishings purchased by GSA for members of Congress in State (Senate) and District (House) offices. Also provides for the Cooperative Administrative Support Units (CASUs) which are designed to consolidate common support services (e.g., mail, copy center, printing, etc.) to all government agencies.

c) Quality Management and Training - Develops, implements, and administers an interagency training program. Provides for the GSA Interagency Training Center which offers training to GSA and other Federal, State and local agencies.

BOARD OF CONTRACT APPEALS

a) Board of Contract Appeals - Provides support in the adjudication of disputes related to Government contracts entered into by the Departments of Treasury, Commerce, Education and other government agencies and commissions.

WORKING CAPITAL FUND
Congressional Presentation

I. Missions and Resources

WORKING CAPITAL FUND
(Dollars in Thousands)

	FY 1992 Actual	FY 1993 Estimate
Working Capital Fund		
Income	$40,482	$42,450
Expenses	39,452	42,450
Gain/(Loss)	1,030	0
Business Volume (Obligations)	$40,319	$42,450
Employment (FTE)	288	286

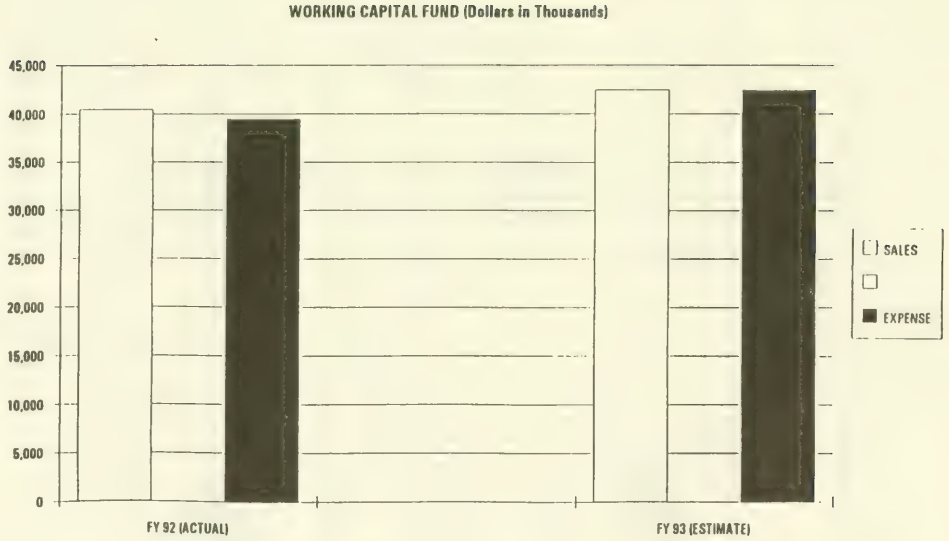
BACKGROUND

The working Capital Fund was initially authorized in the independent offices Appropriation Act, 1946(P.L. 79-49; 40 U.S.C. 293). Operation of printing and duplicating plants require the further approval of the Joint Committee on Printing, U.S. Congress. Operation of a field plant may be undertaken by GSA if it has a major interest, or by another Government agency under arrangement with GSA and subject to GSA regulations. The fund is currently capitalized at $1,200,000 without fiscal year limitations for the payment of salaries and expenses necessary for the operation and maintenance of centralized printing, duplicating, photocopying and distribution. Customer reimbursements generate income which offset operating expenses incurred by the fund. After making adequate provision for replacement of equipment and other long term liabilities, any net profit is transferred to miscellaneous receipts of the Treasury, pursuant to the authorizing language of the WCF.

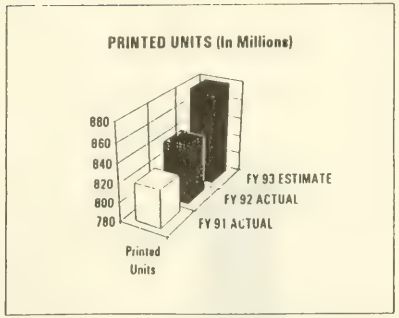
JUSTIFICATION

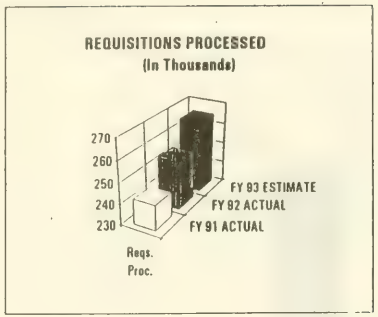
CENTRALIZED PRINTING AND DUPLICATING OPERATIONS

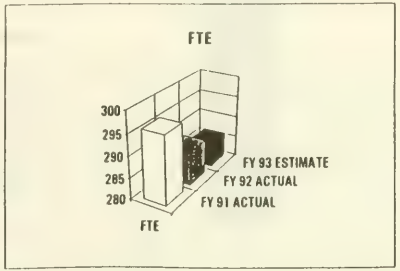
The fund provides short-run, fast turn-around printing and duplicating services for GSA and other Government agencies in a successful and economical manner. Centralized printing or duplicating services are established only when such cost benefit analyses demonstrate that positive Federal savings can be achieved. Plans for establishment of these services in new Federal buildings are coordinated with the Public Buildings Service during the initial design stage of the new construction project.


WORKING CAPITAL FUND (Dollars in Thousands)
45,000
40,000
35,000
30,000
25,000
20,000
15,000
10,000
5,000
0
FY 92 (ACTUAL)
FY 93 (ESTIMATE)
SALES
EXPENSE

WORKING CAPITAL FUND
Congressional Presentation







SELECTED WORKLOAD DATA

The three year trend analyses for the Working Capital Fund is as follows: Printed Units, Requisitions Processed, and FTE for Fiscal Years 1991 through 1993.

THURSDAY, FEBRUARY 18, 1993.

ALLOWANCES AND OFFICE STAFF OF FORMER PRESIDENTS

WITNESSES

WILLIAM B. EARLY, JR., ACTING CHIEF FINANCIAL OFFICER
NANCY L. POTTER, ACTING DIRECTOR OF BUDGET
JON JORDAN, CONTROLLER, OFFICE OF ADMINISTRATION
MARY L. BABCOCK, ASSOCIATE ADMINISTRATOR FOR ADMINISTRATION

INTRODUCTION

Mr. HOYER. Allowances and Office Staff for Former Presidents, is a much discussed subject, the attention to which is unrelated to the dollar magnitude of the program.

Mr. EARLY. Mr. Chairman, Allowances and Office Staff of Former Presidents appropriations are authorized by the Former President's Act, which provides for an annual pension, mandatory by law, and the compensation of office staffs and related operating expenses for former Presidents Nixon, Ford, Carter and Reagan, as well as the pension and franking privileges for President Johnson's widow.

A supplemental budget request has been submitted to the Office of Management and Budget to provide for the costs and expenses incurred to support the newly established office of former President Bush, covering the period January 20, 1993, through September 30, 1993.

This completes my brief summary, Mr. Chairman.

I will answer any questions you may have.

Mr. HOYER. We will insert your opening statement in the record at this point.

[The statement follows:]

STATEMENT BY ...
MR. WILLIAM B. EARLY
ACTING CHIEF FINANCIAL OFFICER, GENERAL SERVICES ADMINISTRATION
BEFORE THE
SUBCOMMITTEE ON TREASURY, POSTAL SERVICE AND GENERAL GOVERNMENT
OF THE HOUSE COMMITTEE ON APPROPRIATIONS

Mr. Chairman and Members of the Subcommittee:

I am pleased to have this opportunity to briefly summarize the General Services Administration's 1993 budget request for the Allowances and Office Staff for Former Presidents.

The Allowances and Office Staff for the Former Presidents appropriation is authorized by the Former Presidents Act, P.L. 85-745 (3 U.S.C 102 note) of August 25, 1958, as amended. It provides for an annual pension, mandatory by the public law cited above, and paid monthly to each former President and each widow of a former President. The budget request for the Allowances and Office Staff for the Former Presidents will enable the General Services Administration to carry out it's responsibility to provide for continued funding of entitlements under the law, such as, pensions, the compensation of office staffs and related operating expenses for former Presidents Nixon, Ford, Carter and Reagan, as well as the pension and franking privileges for the Widow Johnson.

A supplemental budget request has been submitted to the Office of Management and Budget (OMB) to provide for the costs of expenses incurred to support the newly established Office of former President Bush. The supplemental estimate provides funding for a monthly pension, personnel costs of the office staff, and other items associated with the operation of the Office of former President Bush, covering the period January 20, 1993 through September 30, 1993.

This completes my summary statement Mr. Chairman. We would be pleased to respond in greater detail to those areas of specific interest to the Subcommittee.

AUTHORITY AND FUNDING REQUEST

Mr. HOYER. How much is this account, did you say?

Mr. EARLY. It is a $2 million——

Mr. HOYER. $2.2 million. I have it right here. The pros and cons of the $2.2 million appropriation for office staff for former presidents receives a lot of attention.

Would you provide us a copy of the statutory authorization?

Mr. EARLY. A copy of that? Yes, sir. It is the Former Presidents Act, Public Law 85–745, 958, (3 U.S.C. 102 note) of August 25, 1958 and we will send you a copy of it. It was revised in 1977, increasing the benefits for the pension and amounts for the staff.

Mr. HOYER. What is the pension for a former President?

Mr. EARLY. Pension for a former President is equal to a Cabinet Secretary's salary and it is currently $148,400, effective in January 1993, authorized by P.L. 91–658, January 1971.

So as the Cabinet Secretary's salary changes, the pension changes in the same way.

PRESIDENT'S SALARY VS. FORMER PRESIDENT'S PENSIONS

Mr. HOYER. How long has the President's salary been at $200,000; do you know? Do you know off the top of your head?

Ms. POTTER. It has been at least five years.

Mr. HOYER. It has been at least 12. It hasn't changed since I have been here.

Mr. EARLY. I think it has been 20 years. I don't recall it has been changed, that I can remember. It a good, long while.

Mr. HOYER. The reason I ask this, is that if the pensions keep on experiencing increases, the pension is going to be higher than the President's salary. This is the case, in some respects, now to those Presidents who retired in the early 1970s.

FUNDING REQUEST DEVELOPMENT

How are the funding requests developed? Do you conduct a thorough review of the requests from former Presidents or is it pretty much a pass-through?

Mr. EARLY. I am going to say it is a combination of the two. When it is first established, we essentially look at what the other former Presidents have and the variances between former Presidents will be based upon the office space costs primarily, and the law identifying the staff salaries when first he leaves office.

Once that gets set, it primarily just changes with inflation. We discuss with the staff locally their requirements, review what their actual expenditures are, and ask them to have active participation in their budget requirements.

We then submit it to OMB. I am going to say it is pretty much automatic from that point on. We see to it that if OMB has the agency absorb pay or absorb inflation, those kind of issues, we apply it to this account also, so it is treated in the same fashion, but it has almost no changes once established.

PROGRAM COMPONENTS

Mr. HOYER. Can you break down that $2.2 million by President?

Mr. EARLY. Yes, sir. The 1993 program has for Mr. Nixon, $476,000; for Mr. Ford, $460,000; for Mr. Carter, $464,000; for Mr. Reagan, $768,000; and for the widow of former President Johnson, $22,000; total of about $2.2 million. As you can see, the numbers are almost the same. The major differences are the cost of office space.

Mr. HOYER. When you say the same, there is a 75 percent differential between the first three former Presidents that you mentioned and Mr. Reagan.

Mr. EARLY. The major cost is office space cost. Mr. Reagan is in downtown Los Angeles. It is the highest cost office space. As we discussed Tuesday morning, this account pays the commercial equivalent to GSA as any Federal office does, and the office space for him is $346,000; whereas for Mr. Carter, who lives in a much lower cost area and out in the suburbs, his is $80,000. And so that makes a significant difference.

Mr. HOYER. Comparable space?

Mr. EARLY. Comparable space, yes.

PENSIONS

Mr. HOYER. Mrs. Johnson's $22,000 is for what?

Mr. EARLY. Twenty thousand dollars is for the pension and the remainder is for franking privileges.

Mr. HOYER. $20,000 doesn't bear much relationship to the President's pension.

Ms. POTTER. No, it doesn't.

Mr. HOYER. The pension is $146,000 or $148,400. And if the President dies or the former President dies, the widow gets $20,000?

Mr. EARLY. That is correct. There is a fixed widow's pension established by statute. In 1958 it was established at $10,000, and in 1971, it was changed to $20,000, and has been unchanged since, and it is a fixed figure. It is not relative to the value of a pension, a percentage or anything like that.

PRESIDENT'S SALARY

Mr. HOYER. I said it had been 12 years since the President's salary had been adjusted. The President's salary was last modified in 1969 when it was established at $200,000.

Mr. EARLY. That is what I thought; yes.

Mr. HOYER. Since it has been 23 years, 24 years since then, I imagine that if the adjustments made to the pensions had also been applied to the President's salary, it would be well over a half million dollars.

Mr. EARLY. Also, the recent pay rates changed the levels of Cabinet Secretaries and Vice President, but it did not change the President's salary. The President's salary has to be changed specifically. It can't be changed while he is in office, and all of a sudden it just never gets dealt with.

Mr. HOYER. Well, I will try to do it. This has been discussed at previous Subcommittee hearings.

Mr. EARLY. I remember it was discussed.

Mr. HOYER. Do you remember that? I think I would probably pay more attention to it for the next term.

WIDOW'S PENSION

Also I want to look at this widow's pension.

Mr. EARLY. GAO had looked at modifying the authority of the act about 10 or 12 years ago. We had supported a change at that time.

I believe it was with the Government Operations Committee, and we had proposed something like 55 percent of whatever the President's pension is, so that it would change on a percentage relationship, as most survivor pensions do.

Mr. HOYER. Most survivors pensions are usually about half of the annuity's pension.

Ms. POTTER. And I think at one point, GAO had mentioned that it should be basically about that level. It was the act of 1958, but it started out at $10,000.

Mr. EARLY. It started at $10,000 and it changed in 1971 to $20,000.

Ms. POTTER. That was the only change.

STAFF AND ALLOWANCES

Mr. HOYER. Now, staff and allowance for the former Presidents, is that a constant as opposed to rent which is a variable?

Mr. EARLY. Yes, sir. The act indicated that the staff of a former President, in aggregate their salaries should not exceed $96,000. That was modified in 1977 to be $150,000 for the first 30 months that the President is out of office, and then it reverts back to $96,000. That was established in 1970, and so that number stays.

Since the employees are not viewed as Federal employees, they can receive a salary and compensation of any level that the Presidents may desire, that cannot exceed a cap of Executive Level II, $133,600 for a single employee.

As you can see, that number is growing, whereas the maximum in aggregate has not. And so, he can either have one high-paid person or many low-grade persons, but the aggregate staff salaries may not exceed a number that is very old and is not changed by inflation, pay raises or anything.

And so again, the appropriation request changes for the pension, but is fixed for staff salaries. We put some inflation on the basic program and space cost. So once they have all been set, that is it. Staff salaries are fixed.

FRANKING EXPENSES

Mr. HOYER. You said Mrs. Johnson got $2,000 for franking. What are the other former President franking costs?

Mr. EARLY. I am sorry. Say that again, sir.

Mr. HOYER. The other former President franking costs.

Mr. EARLY. The franking in 1992, actual, Mr. Nixon's franking postal cost was $7,600; Mr. Ford was $3,300; Mr. Carter, $7,900; Mr. Reagan, $9,200, and the widows' pension—postage actually was $500, for a total of $28,500 in 1992 for franking privileges.

Mr. HOYER. The $2,000 was the allowance. Did the remaining $1,500 revert to the Treasury?

Mr. EARLY. That is the amount we were asking for in 1993.

Mr. HOYER. Oh, 1992, she spent $500?

Mr. EARLY. She actually spent $500. She spent $700 the preceding year, so the number will vary a little bit.

Mr. HOYER. When we refer to the frank, is it actually a Presidential signature frank or is it a mail allowance?

Mr. EARLY. No, essentially it is frank rather than penalty mail; it is signature, and as many forget, it is a full value. There is no discount. It is exactly the same, 29 cents. Just don't have to buy a stamp, that is all.

Mr. HOYER. How is that controlled; or is it controlled?

Mr. EARLY. It is controlled.

Mr. HOYER. $7,600, $3,300, $7,900 and $9,200. Now, Mr. Reagan is the most recent—well, I guess Mr. Bush is the most recent. Formerly, in 1992, obviously, Mr. Reagan, it would be understandable that his mail would be highest, but could conceivably they spend it in a much higher sum?

Mr. EARLY. Yes.

Mr. HOYER. You are required by statute to reimburse whatever they spend?

Mr. EARLY. We have to reimburse the Postal Service for the full value of their usage and their usage is controlled by the size of the budget. So if they were to spend more, they would have less dollars to spend in other places to stay within the budget that is appropriated. So they can change.

FINANCIAL CONTROLS

Mr. HOYER. It is controlled.

Mr. EARLY. It is controlled in aggregate, with total dollars.

Mr. HOYER. For instance, Mr. Nixon's budget of $476,000; the 476 includes staff, rent, frank and what else?

Mr. EARLY. I will walk through the complete list that I have. It is the salaries for the staff and the benefits for the staff, the pension, travel, transportation, office products, payments to GSA for rental space, telephones, equipment rental, postage, printing, other contractual services, subscriptions, and so forth, supplies and materials and equipment, if they buy PCs or typewriters or whatever. So it is all office type operations.

Mr. HOYER. Now, are there any former Presidents who are not using their full appropriated amounts?

Mr. EARLY. Like anyone else, they have a total that they cannot exceed and based upon the way they run their office and their operations, they do not necessarily spend everything that is available. We have financial controls on them, as we do all other government-type operations. The unobligated balance in 1992 from the $2.1 million appropriated, was $152,000.

Mr. HOYER. Do you have that broken down as to where that came from?

Mr. EARLY. Mr. Nixon's unobligated balance was $21,000; Mr. Carter's, $41,000; Mr. Ford, $29,000; Mr. Reagan, $53,000; on postage that year was—which would have been for the widows that we were holding in our Central Office, $2,000, and there was a travel reduction that year by statute that we had held $6,000 back to reflect that, these amounts total to $152,000 rounded.

Mr. HOYER. So, in 1993, the $476,000 you mentioned for Mr. Nixon and $460,000 for Ford; Carter, $464,000; Reagan, $768,000; is that the total amount available to them? The savings of $21,000, for instance, in 1992. Let's just say Mr. Nixon's 1992 figure was $450,000; I don't know if it was that. It was $476,000 for 1993. That $21,000 would be reduced from the $450,000?

Mr. EARLY. That is correct.

Mr. HOYER. So, for illustrative purposes only, he spent $429,000 out of $450,000?

Mr. EARLY. As an example, using Mr. Carter. In 1992, he had $449,000 available. He spent $408,000, and the $40,000 difference is what was unspent that was available for his office.

Mr. HOYER. We have spent an inordinate amount of time on this and I am sure we will spend an inordinate amount of time on it on the Floor.

Mr. EARLY. As we always say, this is the small part. The larger part is Secret Service protection, which is not in our account.

Mr. HOYER. We will spend some time on that as well.

[Additional questions submitted for the record by the Committee and the answers thereto follow:]

Question. Since the 1993 request did not include funds for former President Bush, what is the Administration's plan for accommodating this requirement? What is the anticipated additional cost for former President Bush's requirements?

Answer. A supplemental budget request for FY 1993 and an amended budget estimate for FY 1994 has been submitted to the Office of Management and Budget. The estimated operating cost for FY 1993 is $194,000 and $611,000 for FY 1994.

Question. If appropriations are not provided, does the law still require GSA to fund allowances and office staff for former Presidents? How would GSA cover these costs if no appropriation were made?

Answer. The law provides that each former President shall be entitled for the remainder of his life to receive a monetary allowance payable monthly by the Secretary of the Treasury. Also, the law states that the Administrator of GSA shall provide for each former President office staff and suitable office space. However, no other Federal appropriations are made available for these purposes. Funds currently appropriated for the Allowances and Office Staffs for Former Presidents Appropriations are programmed for the pensions and office staffs for former Presidents Nixon, Ford, Carter, and Reagan. If no additional appropriation is made for former President Bush, GSA would be required to provide for these costs by transferring funds to this account, under its two percent transfer authority, from one or more of its operating expenses or salaries and expenses appropriations. In addition GSA would reduce funds available to all Former Presidents to obtain amounts needed to meet mandatory provisions and basic minimum needs of the new Bush office space.

Question. What amount of the 1993 Appropriation is associated with pensions for former Presidents and what amount is for office staff and operating expense?

Answer. The FY 1993 Appropriation for Allowances and Office Staff Appropriation was $2,192,000. The costs programmed for the annual pension equals $613,000, the amount for the office staff and operating expense is $1,579,000.

Question. What has been the historic cost of the franking privilege for former Presidents? What is the estimated value of this franked mail privilege?

Answer. Historically, annual cost of the franking privileges has ranged from $23,000 to $30,000 (FY 1989 through FY 1992). Funding is provided for franked mail during the transition period from the Presidential Transition appropriation and costs incurred thereafter is provided from the Former Presidents Appropriation. GSA reimburses the Postal Service for the equivalent amount of postage from the respective appropriations.

Mr. HOYER. We will insert the overview material in the record.

[The information follows:]

ALLOWANCES AND OFFICE STAFF FOR FORMER PRESIDENTS
Congressional Presentation
(Dollars in Thousands)

I. MISSION AND RESOURCES

	FY 1992 Actual	FY 1993 Estimate
ALLOWANCES AND PENSIONS	$590	$613
OFFICE STAFF	$1,387	$1,579
Total	$1,977	$2,192

This program is authorized by the Former Presidents Act, P.L. 85-745 (3 USC 102 note) of August 25, 1958, as amended. It provides for an annual pension paid monthly to each former President and each widow of a former President; and funding for office space, furnishings, and equipment as appropriate (defined under CG Decision B-114073, March 8, 1961). The Supplemental Appropriation Act of October 21, 1968, P.L. 90-608, 82 Statute 1192, allows for travel and related expenses for each former President and not to exceed two members of his staff. Title 39 USC, 3214 authorizes a former President and widow to send all mail in the U.S. and its territories as franked mail and under the President Transition Act, Section 3(a)(7), each former President may use penalty mail.

a) Allowances and Pensions - Provides for a monthly allowance for each former President equal to the annual rate of the basic pay for the head of an executive department. Also, provides for a monthly allowance for each surviving spouse of a former President, commencing on the day after a former President dies and terminates after death or remarriage, before becoming 60 years of age.

b) Office Staff - Provides for the compensation of staff members for each former President which cannot exceed Level II of the Executive Schedule for any member. Includes expenses for travel and motor pool, payments forleased space to GSA, office supplies, equipment and other miscellaneous contract services, as appropriate.

II. INITIATIVES AND ISSUES

ISSUE: FY 1993 supplemental budget request has been submitted to the Office of Management and Budget (OMB) to provide funds in support of new former President Bush.

DISCUSSION: The Former Presidents Act of August 25, 1958, as amended (3 USC 102 note), authorizes each former President a pension, which begins immediately upon leaving office at noon on January 20, 1993. Effective six months after the expiration of the former President's term of office, all other provisions of the Act, (e.g., compensation for office staff, travel and related expenses, office space, office furnishings and equipment, office supplies, etc.), becomes effective on July 20, 1993. The FY 1993 supplemental estimate is requested to support the operation of a newly established Office of the Former President Bush.

ACTION REQUIRED: Legislative enactment of the FY 1993 supplemental budget request.

THURSDAY, FEBRUARY 18, 1993.

PRESIDENTIAL TRANSITION

WITNESSES

WILLIAM B. EARLY, JR., ACTING CHIEF FINANCIAL OFFICER
NANCY L. POTTER, ACTING DIRECTOR OF BUDGET
MARY L. BABCOCK, ASSOCIATE ADMINISTRATOR FOR ADMINISTRATION

INTRODUCTION

Mr. HOYER. Next we will hear from Mr. Early on the Presidential Transition account.

Mr. Early, do you have a statement you would like to make?

Mr. EARLY. That is fine. I will let you go with your questions.

[The information follows:]

STATEMENT BY ...
MR. WILLIAM B. EARLY
ACTING CHIEF FINANCIAL OFFICER, GENERAL SERVICES ADMINISTRATION
BEFORE THE
SUBCOMMITTEE ON TREASURY, POSTAL SERVICE AND GENERAL GOVERNMENT
OF THE HOUSE COMMITTEE ON APPROPRIATIONS

Mr. Chairman and Members of the Subcommittee:

Before responding to your specific questions, I would like to briefly summarize the funding and activities of the Presidential Transition account.

The Presidential Transition Act of 1963, Public Law 88-277, as amended by Public Law 100-398 (3 U.S.C. 102 note), requires that the General Services Administration request funding to provide for an orderly transfer of executive power upon the expiration of the term of a President and the inauguration of a new President.

The appropriation for Presidential Transition provides for expenses for the President-elect, as well as the former President and Vice-President. This budget request reflects a total of $5 million including $3.5 million for the President-elect and Vice President-elect, and $1.5 million for the former President and Vice-President.

This completes my summary statement Mr. Chairman. We would be pleased to respond in greater detail to those areas of specific interest to the Subcommittee.

PRESIDENTIAL TRANSITION FUNDING

Mr. HOYER. In the fiscal year 1993 appropriation, we provided $5 million; how much of the $5 million has been obligated?

Mr. EARLY. The $5 million to date has $3.3 million obligated. The large amount, of course, is for the incoming administration, for which the availability expires this weekend, and is $3.1 million. Mr. Bush and Mr. Quayle are just starting on the availability for theirs, so theirs is not complete yet. Mr. Bush to date has obligated $160,000 and Mr. Quayle approximately $12,000.

Mr. HOYER. What do they spend that money on?

Mr. EARLY. The transition is primarily for the incoming administration for salaries. For the incoming administration we show about $2.4 million for salaries and benefits; $99,000 for telephone, local service; equipment rentals, $67,000; printing, contractual services, about $400,000-plus, $26,000 for supplies.

For the outgoing administration, it is going to be somewhat similar in that it is for staff salaries and for equipment. We always advise the former President that the dollar availability and the authority are more broad under the transition than under the former President's Act, and clearly as you have seen, the former President's dollars get fixed and stay that way. So we advised him that if he needs to print stationery, to do it under the transition stockpile.

If he needs equipment for the office, to use the transition to buy the equipment. It is going to be hard to buy that kind of thing under the Former Presidents Act. It would be better to try to equip the office and have it set up.

Mr. HOYER. Now, is there a delineation of the $5 million and how much is available for the incoming administration and how much is available for the outgoing administration?

Mr. EARLY. The $3.5 million is available for the incoming, and $1.5 million for the outgoing, and contrary to the Former Presidents Act, that is about it. There is no further delineation of amounts not to exceed, or so forth.

VICE PRESIDENT TRANSITION FUNDING

Mr. HOYER. The incoming President pretty much controls the transition money coming in. Does the incoming Vice President have a portion of that or is that essentially a presidential authority.

Mr. EARLY. In both cases the amount that is available for the Vice President is as determined by the President, and in some cases it is not an identified amount that we manage. In other cases it is, and that is more so for the outgoing than the incoming.

In this case, we were aware that Mr. Quayle has $250,000 allocated to him from the former President and that is what we are managing for Mr. Quayle.

INAUGURAL EVENT FUNDING

Mr. HOYER. Were any transition funds used for inaugural events?

Mr. EARLY. No, sir. It is not authorized.

TRANSITION ACT REQUIREMENTS

Mr. HOYER. What are the disclosure requirements for corporations and individuals involved in inaugural events?

Mr. EARLY. I am not aware of any, in that when you say the inauguration, the inaugural activities under the Presidential Inaugural Committee are all nongovernmental funds. GSA and the Public Buildings Service does have identified in its budget the statutory authority to provide some support, which we show, a little over a million dollars for preparation support. GSA support to the Presidential Inaugural Committee is for a basic mission. We charge them for that. They pay us.

But I am not aware of any requirement that they make any reports as to what they spend, how much they spend, from whom they collect, and how much they collect, because there are no Federal funds for that.

Under the Transition Act, as was revised four years ago, there is a requirement for a report 30 days after the President is inaugurated, to report to the administrator of the General Services Administration on all contributions to the transition.

Mr. HOYER. Mr. Wolf had asked, about this last year with reference to the transition. He asked for a list of clients and things.

Your answer: "Let me provide for the record the disclosure requirements under the act. Let me provide you with that for the record", which I guess you did.

SPACE REQUIREMENTS

What is the GSA's guidance in charging lease costs for office space used by the transition team? In other words, they use government-owned space. How do you attribute the cost for that?

Mr. EARLY. Our policy for the incoming transition, is to anticipate for it and try to see to it that space is available at no new cost to us. During the last three transitions, were that way. Usually we have enough flux in the leased space inventory in this town. If we see that a lease is going to be up, an agency is going to be moving and space needs to be refigured, or a new client is coming in the space there, we hold off that client for 60 days and we say that space is special for the transition.

If something like that is already in the contract, and we get the transition folks to accept it, we do not charge for any costs. If they say it is inadequate, I want over there or I want space that we do not currently have in the inventory, we say, fine, but you are going to pay us.

Mr. HOYER. So it is possible for the Transition Team to make a determination that they will take, in effect, free space and, therefore, not draw down on their $3.5 million?

Mr. EARLY. That is correct, and traditionally that has been the case.

PERSONNEL REQUIREMENTS

Mr. HOYER. They also can use personnel as well by using congressional staff, as opposed to executive staff, apparently.

Mr. EARLY. That may be true. The old Transaction Act permitted nonreimbursable detailees. The Transition Act was modified re-

quiring detailees to be reimbursed, so at least from the executive branch, if they receive detailees, they have to be reimbursed out of that.

Mr. HOYER. Apparently this applies only to the executive branch.

Mr. EARLY. That is right.

Mr. HOYER. Which is why there was a premium on using congressional staff, because it was "free" staff, no detail cost to the transition.

GSA PROFESSIONALISM

Mr. HOYER. Mr. Early, we look forward to working particularly close with you. You have done an excellent job over the years working with this Committee.

I have a great deal of confidence in you, but I want to tell you, as Mr. Natcher, the Chairman of the Committee now says, I want to tell you this frankly, that I want to be working very closely with you. You have effected some efficiencies and we will see if we can do some more work with you.

Also I want to say that we want to make sure that GSA runs as professional a shop as it can. The agency has, in the past, been used politically. That is clearly not in the best interests of the taxpayer, and we want to make sure that it is a professional operation.

Mr. EARLY. Thank you, Mr. Chairman.

Mr. HOYER. Thank you very much for being with us. We appreciate your efforts.

[Additional questions submitted for the record by the Committee and the answers thereto follow:]

Question. Have you received full disclosure yet from the Clinton Administration on this year's transition, as required by law?

Answer. We have received the disclosure report. The report was due thirty days after the inauguration.

Question. Do you have any recommendations to make on handling transitions, based on this year's experience?

Answer. Yes. We offer the following recommendations for the Committee's consideration:

Extend the date for submitting the disclosure report required under subsection 5(a) of the Presidential Transition Act of 1963, as amended, (3 U.S.C. 102 note), ("Act") from 30 days after the inauguration to 60 days after the inauguration. Experience has shown that this is a more realistic time-frame given the administrative and/or logistical steps involved in gathering and verifying the financial data, and in assembling the report and preparing necessary summary information.

The Act should be amended to allow the Office of the President-Elect to submit to the Administrator summary information regarding the sources and amounts of contributions (e.g. total contributions from businesses, private individuals, political action committees, foreign governments, lobbyists, etc.). The Act can currently be interpreted as requiring the names of each private individual contributor, regardless of the amount contributed. This interpretation might require the disclosure of many thousands of names of individuals who may have contributed as little as $1 and had little expectation that their names would be publicly disclosed. This basic information may still be retained by the Office of the President-elect for future audit purposes but need not be submitted to the Administrator as part of the disclosure report.

The Transition Act also should authorize funding for GSA's pre-election planning and preparation expenses for transitions. As you know, GSA is required to be in readiness before the transition occurs to provide the President-elect and Vice-President-elect with suitable office space, furniture, furnishings, equipment and similar items immediately after the election. This funding authorization would be "to the

extent necessary" and would be in addition to the $5 million currently authorized for the incoming and outgoing administrations.

The Act should specify that GSA will not charge the transition appropriation for office space that is suitable for the incoming administration when such space is in GSA's existing inventory and is vacant, and when the transition team's occupancy will be for a short duration. This is GSA's current practice.

The logistical support and administrative services currently afforded a former President under the Transition Act should be moved to the Former Presidents' Act so that all such services and other benefits afforded former Presidents will be in one statute. This is consistent with a GAO Report of some years ago and would allow GSA to better coordinate its support for former Presidents throughout the transition and post-transition periods.

The Presidential Transition Act specifies that compensation of office staffs shall not exceed GS–18 (now Executive Level IV at an annual salary of $115,700). The Transition Act authorizes this top staff salary level for up to 6 months following the former President's departure from office. However, under the Former Presidents' Act, which commences after the Transition Act's 6 month period expires, the top staff salaries shall not exceed Executive Level II (at an annual salary of $133,600). Further, the aggregate amount for staff salaries under the Former Presidents Act is $150,000 per annum for the first thirty months and $96,000 per annum thereafter.

It would appear that the maximum annual salary level for top staff under the Transition Act should be the same as that under the Former Presidents' Act, i.e., Level II at $133,600. In addition, the aggregate staff salaries under the Former Presidents' Act should be increased by adjustments that have been made in Executive Branch salaries over the years.

Mr. HOYER. We will insert the overview in the record.

[The information follows:]

PRESIDENTIAL TRANSITION
Congressional Presentation
(Dollars in Thousands)

I. MISSION AND RESOURCES

	FY 1992 Actual	FY 1993 Estimate
Presidential Transition	$0	$5,000

The Presidential Transition Act of 1963, P.L. 88-277, as amended, authorized the Administrator of General Services to appropriate funds for use by the outgoing President and Vice-President and for the incoming President and Vice-President as a means of facilitating the smooth transition of power. These funds can be used to provide:

a) suitable office space, appropriately equipped with furniture, furnishings, office machines and equipment, and office supplies;

b) compensation for members of office staffs;

c) expenses for procurement of services from experts and consultants;

d) allowances for travel and subsistence, including rental of Government or hired motor vehicles;

e) communication services;

f) payment of expenses for necessary printing and binding, and for postage.

The Presidential Transition Effectiveness Act, PL. 100-398, signed August 17, 1988, increased the amounts of the appropriation to not more than $3,500,000 for services and facilities required by the President-elect and the Vice-President-elect, and not more than $1,500,000 for services and facilities for the former President and former Vice-President.

The availability of these funds are specifically identified in the law. These funds are available for use by the President-elect and Vice-President-elect for obligations incurred between the day following the election, and 30 days after the date of inauguration. Funds appropriated for the former President and former Vice-President shall be available for a period of 7 months from 30 days prior to the inauguration of the new Administration.

THURSDAY, APRIL 22, 1993.

FTS 2000

WITNESSES

HON. JACK BROOKS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

HON. JOHN CONYERS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

INTRODUCTION

Mr. HOYER. We are going to establish a good record on this issue. We wanted to hear from you, Chairman Brooks, because you have been most intimately involved with this. Chairman Conyers will be along in a few minutes. I will recognize Chairman Brooks now. Your statement will be included in full in the record. You may proceed.

STATEMENT OF CHAIRMAN BROOKS

Mr. BROOKS. Thank you very much. Thank you, Mr. Chairman, for agreeing to have me testify today and making a special effort to be here so early in the morning, typical of your own dedication. When I worked with the Subcommittee over the years on FTS 2000 and other important issues, I have always appreciated your support and assistance.

Mr. CONYERS. Good morning, Mr. Chairman. Pardon the interruption.

Mr. HOYER. We are pleased to welcome the Chairman of the Government Operations Committee, Mr. Conyers. Mr. Conyers told me that Mr. Brooks had been "demoted" to Chairman of the Judiciary Committee, but I didn't take it literally.

Mr. CONYERS. Thank you, Chairman Hoyer. Can you read lips?

Mr. HOYER. Chairman Conyers just leaned over to Chairman Brooks and said, "Hoyer lies." Chairman Brooks, please continue.

Mr. BROOKS. All right. It was almost five years ago that I appeared before your Subcommittee, along with Congressman Frank Horton, to request that appropriations language be adopted to require executive agencies to use the FTS 2000 project. It was a critical point in time for the project. As Chairman of the Government Operations Committee, I had succeeded in convincing the GSA to redesign the procurement to provide for a two-vendor award.

The problem was that there were only three bidding teams competing for the FTS 2000 and one of the teams, Martin Marietta-MCI, was threatening to pull out because, in their view, GSA could not guarantee enough government business to support splitting the contract. While GSA at the time was estimating that the 10-year value of the FTS 2000 contract was about $25 billion, that figure

was based on full use of the FTS 2000 network, the Martin Marietta-MCI bidding team didn't believe GSA could deliver that level of business.

And, quite frankly, I shared their concern at the time. The Department of Defense and a few other recalcitrant agencies had indicated that they wanted to build their own expensive gold-plated network and it was uncertain whether GSA would be able to keep them in the FTS 2000 project.

While GSA has the authority under the Brooks Act to stop these agencies from bolting from the procurement, history has shown that the agencies have found numerous ways to get away from them.

And so I would just say in conclusion briefly that I maintain my strong interest in this. One of my efforts in Judiciary is to have open competition. We regard FTS as a public sector analog benefiting taxpayers and having saved about $3 billion since it was inaugurated, $3 billion, their numbers.

I would just say that you have done this before and I would urge the adoption of permanent mandatory use language that would require all the Federal agencies to procure under FTS 2000 and that way, with mandatory use being the engine that drives the FTS 2000 success, we can achieve permanent benefits for the American taxpayer.

Once again, I thank you for your invitation and I am grateful to be over here with you and particularly to serve with my successor, the very distinguished and able John Conyers, who also served on the Judiciary Committee and has a high regard for it while he is over there.

[The statement of Chairman Brooks follows:]

Statement of the Honorable Jack Brooks

before the

Treasury, Postal Service and General Government Subcommittee

April 22, 1993

Mr. Chairman, thank you for agreeing to have me testify today. I have worked with the subcommittee over the years on the FTS2000 and other important issues and I have always appreciated your support and assistance.

It was almost five years ago that I appeared before your subcommittee, along with Congressman Frank Horton, to request that appropriations language be adopted to require executive agencies to use the FTS2000 project. It was a critical point in time for the project. As Chairman of the Government Operations Committee, I had succeeded in convincing GSA to redesign the procurement to provide for a two vendor award. The problem was that there were only three bidding teams competing for the FTS2000 and one of the teams -- Martin Marietta/MCI -- was threatening to pull out because in their view GSA could not guarantee enough Government business to support splitting the contract. While GSA at the time was estimating that the 10 year value of the FTS2000 contract was $25 billion, (that figure was based on full use of the FTS2000 network) the Martin Marietta/MCI bidding team didn't believe GSA could deliver that level of business. Quite frankly, I shared this concern at that time. The Department of Defense and a few other recalcitrant agencies had indicated that they want to build their own expensive, gold plated networks and it was uncertain whether GSA would be able

to keep them in the FTS2000 project. While GSA has the authority under the Brooks Act to stop these agencies from bolting from the procurement, history has shown that agencies have found numerous ways to get around GSA's authority.

As a result, it was clear to me that unless a way was found to buttress GSA's authority and guarantee full agency usage of the FTS2000, Martin Marietta/MCI would withdraw from the procurement. The reason it was critical to keep Martin Marietta/MCI in the competition was that the two vendor award strategy works only if there are more than two vendors competing for the business. With three vendor teams (Martin Marietta/MCI, AT&T and Sprint) bidding on the FTS2000 contract the Government was assured of getting the best competitive prices available. The bottom line was that without Martin Marietta/MCI we would have had to cancel the procurement and start over again.

Ironically, given MCI's current position, the solution came from the Martin Marietta/MCI bidding team. They proposed that I request that the Appropriations Committee adopt language requiring the mandatory usage of the FTS2000 by all Federal agencies. After consulting with the other two bidding teams (AT&T and Sprint) I developed and proposed the mandatory use language that Congress eventually adopted. In my view there was never any question that this mandatory use language would remain in place throughout the life of the contract. Certainly, the circumstances which led to the adoption of this language have not changed. DoD and other

agencies are still trying to get off the contract and build their own networks which are duplicative and wasteful. GSA is in no better position to enforce its Brooks Act authority and with the Administrator's office vacant the agency is even more vulnerable to DoD's shenanigans.

It is on this basis that I request that you consider enacting permanent language requiring the mandatory use of the FTS2000 contract by all Federal agencies and that any exceptions to this rule be granted by GSA only under the most highly limited circumstances.

The FTS2000 contract is now in its fifth year. It has exceeded all expectations for cost savings and the delivery of modern up-to-date services. According to GSA as a result of the recent recompetition at year 4 of the contract (another recompetition is due at year 7) almost $3 billion will be saved by the Government. If usage of the FTS2000 is increased beyond the current $10 billion level (for ten years) then the savings to the Government will be even greater.

These savings have been made possible by the Government Operations and Appropriations Committees working together to make this project successful. I would urge you to reject the arguments of those who want to undo this good work for their own financial reasons. The FTS2000 contract is an extraordinary contract that all of us who have been involved with it can be proud of. Thank you.

Mr. HOYER. Mr. Chairman, thank you very much. You have been one of those Members most involved, most knowledgeable and most diligent in this area and we very much appreciate your testimony. As this Committee considers what we want to do this year, we will certainly be consulting with you as well as with Chairman Conyers.

Mr. BROOKS. It is critical to the success of this and it has a proven record of saving $3 billion. It can save another $3 billion.

Mr. HOYER. Thank you. Chairman Conyers.

STATEMENT OF CHAIRMAN CONYERS

Mr. CONYERS. Thank you. Mr. Chairman. It is a pleasure to be here for two reasons. First of all, you followed this issue across the years with your predecessor, Ed Roybal, and all I can say is that when you have a predecessor in Government Operations who still follows the legislation and the programs that he created and works as closely with me as Jack Brooks does, it really makes your job a joy and a pleasure, and there is not an awful lot to add.

There are a couple of points that I would like to make, but we have been working closely together on this. I have been following his lead, and it just needs to be said again that mandatory use is the glue that holds this whole concept together. I mean, if it is voluntary, then we don't need to go through all of this. If it isn't saving money, it is unjustifiable. The latest document we have in this regard, and we acknowledge that there were problems, is the FTS 2000 management reforms and intensive congressional oversight insure savings of $500 million for the taxpayers.

And I refer you to the last administrator, Richard Austin, who wrote, "To confirm, we estimate that FTS 2000 cost savings through fiscal 1992 are $542 million over the old FTS system. Based on current traffic projections and price reductions, we anticipate total FTS 2000 savings of almost $3 billion over the life of the contract when compared with what the old FTS would have cost."

In other words, that is what the Government Operations Committee is here for, to reduce inefficiencies, curb waste, expose problems that can be corrected. Now, Chairman Brooks created this. I can imagine what kind of a fight it must have been to get it started because we are in these continual commercial struggles to prevent it from operating.

We have, as he has labeled them, recalcitrant departments that are reluctant to come in under this umbrella of cost saving. It is a problem that continues to plague us. We have come through the rough periods. We are moving ahead well. The President of the United States has endorsed mandatory use. He has asked us to please keep it in and leave it alone. He doesn't want to do this by executive order or anything else.

We have started this, and so my plea to your subcommittee, Mr. Chairman, is please let us continue to do this and work together as our two committees have, and I ask unanimous consent that my more formal remarks be included in this record.

CONCLUDING REMARKS OF CHAIRMAN HOYER

Mr. HOYER. Without objection, they will be included in the record and the Chair appreciates the comments of the Chairman

and appreciates, again, both distinguished senior leaders of the Congress, as well as two people who have been most involved in this effort, being here this morning to add your testimony. I will make sure that every Member of the Subcommittee reviews your testimony and has the advantage of your views.

Mr. CONYERS. Thank you so much.

[The statement of Chairman Conyers follows:]

STATEMENT OF THE HON. JOHN CONYERS, JR.
CHAIRMAN, COMMITTEE ON
GOVERNMENT OPERATIONS
BEFORE THE
HOUSE COMMITTEE ON APPROPRIATIONS
SUBCOMMITTEE ON TREASURY, POSTAL SERVICE
& GENERAL GOVERNMENT

April 22, 1993

Mr. Chairman, and Members of the Subcommittee, it is indeed a pleasure to appear before you today to discuss a major success story in Federal operations -- the FTS 2000 government-wide telecommunications program. FTS 2000 provides exceptional state-of-the-art telecommunication service to millions of Federal employees, and has annually saved the taxpayers hundreds of millions of dollars over the outdated government owned and operated system it replaced.

I am proud to say that Congress deserves much of the credit for this success. We have consistently provided clear policy guidance, direction, and leadership throughout all phases of this program, and we have followed-up with exhaustive oversight to make certain that the best service available is delivered at the lowest possible costs.

There is no question that many individuals have worked countless hours to make this program a success. Our distinguished colleague, Chairman Jack Brooks, played a crucial leadership role in structuring the FTS 2000 program during its formative years. Almost single-handedly he ensured that the program was based on the principles of fairness and competition.

Likewise, Members of this Subcommittee and the full House Appropriations Committee deserve enormous credit for bringing stability to this program by enacting in law the policy of "mandatory use." Through this long-standing policy, Congress has demonstrated its strong commitment to good government and ensured that the Government's massive buying power is effectively used to save scarce tax dollars.

On behalf of the Committee on Government Operations, I strongly urge my colleagues on this Subcommittee to help guarantee the continued success of this model program by including a mandatory-use provision in this year's Treasury, Postal Service, and General Government Appropriation bill, as President Clinton has requested.

Mr. Chairman, the Clinton Administration is committed to using information and telecommunications technology to improve government operations and the delivery of services to our citizens. Without question, FTS 2000 is a sterling example of what can be accomplished when government and industry join forces

to solve government problems.

Briefly, let me highlight some of the major accomplishments of the program:

- GSA completed the transition from the obsolete and costly FTS system to the state-of-the-art FTS 2000 networks in record time--18 months ahead of schedule--saving the taxpayers nearly $144 million.

- By the end of the fourth year of the contract, GSA estimated that FTS 2000 had saved more than $540 million over the old FTS system, and that it will save nearly $3 billion over the life of the contract;

- Unlike the cost overruns experienced in many other Federal programs, FTS 2000 prices have plummeted since contract award in 1988 -- the cost of a one minute phone call has been slashed more than 50 percent from 18 cents to 8 cents;

- The FTS 2000 contract price cap provisions will ensure that prices stay at or below the best available commercial rates in the future; and,

- Both FTS 2000 vendors have done a remarkable job of subcontracting FTS 2000 work to small disadvantaged businesses -- one vendor has given more than 40% of its entire subcontracting work to disadvantaged firms, and both have exceeded their small disadvantaged business subcontracting goals.

Despite these many accomplishments, we continue to hear complaints from a few very vocal critics of the program. Clearly, opponents of FTS 2000 -- primarily vendors that lost or chose not to bid on the initial the FTS competition -- have spent a small fortune trying to dismantle this program by ending the policy of mandatory use. After exhaustive oversight of the program, the Committee on Government Operations has come down decisively in support of the FTS 2000 program and the continuation of the mandatory use policy. To do otherwise, we concluded, would be irresponsible and a disservice to the taxpayers.

You may hear that mandatory-use provisions are not needed because GSA already has the authority to require agencies to use the system. Unfortunately, the political reality is that the GSA Administrator cannot win in a show-down with the Secretary of Defense or any other Cabinet-level Department Secretary. Political infighting, while childish, is terribly costly for the taxpayers. Congress' enactment of mandatory-use has ensured that such foolishness does not occur, ahd has brought badly needed stability to this program. To throw all of this away simply

because of misinformation, disinterest, or formidable lobbying pressure, would be unconscionable.

As you know, the FTS 2000 program is the largest civilian Federal contract ever awarded. The FTS 2000 program also enjoys the distinction of being perhaps the most closely monitored civilian program in history. The General Services Administration has dedicated an entire staff office to overseeing this contract, the General Accounting Office has written no less than 10 reports on the program at the request of Congress, and Committees in both Chambers have held numerous oversight hearings to ensure that any problems with the program are promptly resolved.

In closing Mr. Chairman, I am proud to say that my Committee has watched the FTS 2000 program very closely since its inception. Based on this extensive work, the Committee recently published a report entitled, FTS 2000: Management Reforms and Intensive Congressional Oversight Ensure Savings of $500 Million For The Taxpayers. This report provides an objective and comprehensive assessment of the FTS 2000 program. It lays out the evolution of the program, the early problems, the extensive oversight this program has received, corrective actions that GSA has taken, and the many benefits the FTS 2000 program provides. I believe you will find it invaluable as your deliberations proceed and I ask that you enter the report into today's hearing record, along with my written statement.

Mr. Chairman, thank you for giving me the opportunity to appear before you on this important matter.

Mr. HOYER. Now, having heard those two Chairmen, does anybody still want to testify? As the Chair has announced, we are going to try to move through this hearing as rapidly as possible. I have indicated to some that if we do not conclude the testimony of all, that we will then schedule a follow-on hearing. I apologize for having to make this hearing more brief than it otherwise would be.

If Mr. Visclosky is able to get here, and he is going to try to get here this morning, we may continue beyond 10:20, but if not, we will continue it at a later date and everybody will get an opportunity to speak.

THURSDAY, APRIL 22, 1993.

FTS 2000

WITNESSES

JONATHAN CRANE, PRESIDENT, NATIONAL ACCOUNTS DIVISION, MCI COMMUNICATIONS CORPORATION

CHARLIE COLE, VICE PRESIDENT OF MARKETING AND REGULATORY AFFAIRS, WILTEL, INC.

INTRODUCTION OF CHARLIE COLE OF WILTEL

Mr. HOYER. We are going to start with Mr. Cole from WilTel. You can grab one of those seats. The microphone is not so much for me but for the people sitting in the back of the room. Sometimes they can't hear.

Mr. Cole, we are very pleased to have you here. I won't give flowery introductions, and I will allow you to proceed immediately. Your full statement will be included in the record and you can proceed in whatever manner at this time.

SUMMARY STATEMENT OF MR. COLE

Mr. COLE. Good morning, Mr. Chairman, and I was going to say Members of the subcommittee but I presume you will pass our remarks on to them. My name is Charlie Cole. I am Vice President of Marketing and Regulatory Affairs for WilTel and I appreciate this opportunity to appear before you this morning. For the reasons that I will discuss, I urge the subcommittee not to include FTS 2000 mandatory use as part of the 1994 appropriations bill.

Many people outside the telecommunications industry regard the debate over FTS 2000 as a struggle among the big three long distance companies, AT&T, MCI and Sprint. The reality is there are many smaller carriers, such as WilTel, Metromedia, LDDS and others, who are very concerned about the FTS 2000 mandatory use and that has eliminated their ability to compete for the provision of services to the Federal Government.

These smaller carriers are also concerned that FTS 2000 mandatory use adversely affects the competition in the commercial marketplace. To the extent that mandatory use enables FTS 2000 vendors to earn excess revenues by insulating them from competitive pressures of the marketplace, they can use these excess revenues to subsidize their commercial offerings.

Such cross-subsidization amounts to an enormous taxpayer financed competitive advantage for AT&T and Sprint. Now, there are two specific points regarding FTS 2000 mandatory use that I would like to share with the subcommittee this morning.

First, the Brooks Act already provides the GSA with ample authority to require agencies to use FTS 2000. It is not necessary for this subcommittee to include FTS 2000 mandatory use in the appropriations act. I realize this is an important legal point for the subcommittee. Because I am an engineer and not an attorney, I asked the law firm of Hogan & Hartson to provide a legal opinion on the question.

Their conclusion is quite clear: Independent of statutory mandatory use language, GSA has sufficient authority under the Brooks Act to require Federal agencies to use FTS 2000. For your benefit, the subcommittee's benefit, I have included the complete legal analysis as an attachment to my written statement.

Second, FTS 2000 mandatory use deprives the Federal Government of lower prices and more efficient technology that competition can bring by eliminating true marketplace competition from the procurement process.

I strongly disagree with GSA's recent report to Congress regarding the cost-effectiveness of FTS 2000 and with the study upon which that report was based. The study did not use the most relevant competitive rates. Instead, it used nominal tariff rates at a time when the industry's most intense competition took place through contracts negotiated between carriers and users. Flawed as it was, the study nevertheless found rates for several of the commercial services below those of FTS 2000.

The U.S. Government is the largest telecommunications user in the world, bar none. And it should receive the best prices available, bar none. Members of Congress, the administration, and the American taxpayer should not be satisfied with prices that are close to commercial prices. Instead, the Federal Government deserves and should demand prices that are substantially better than those available elsewhere.

But with the mandatory use policy insulating the two FTS 2000 vendors from the rigors of true competition and excluding all other possible vendors, the government is not getting the pricing it deserves. In addition to preventing the government from obtaining the best prices, FTS 2000 mandatory use has a chilling effect on the government's ability to upgrade the technology of its network.

The FTS 2000 vendors lack the competitive pressure to provide new and innovative services to the Federal Government, while the mandatory use policy restricts the ability of non-FTS 2000 carriers to offer these new technologies to the government.

This is a particularly critical concern as telecommunications technology continues to evolve at a rapid pace. The Clinton and Gore administration has made improving the Nation's telecommunications infrastructure one of its priorities. FTS 2000 mandatory use may prevent the Federal Government from obtaining these same improvements. In order to receive the very best technology in a timely manner at the best price, in order for its telecommunications infrastructure not to lag behind the commercial marketplace,

the government must ensure full and open competition for these new services.

In summary, Mr. Chairman, I urge you not to adopt the legislation that requires mandatory use of FTS 2000. Such legislation is not necessary. It leaves the administration with no discretion and may condemn the Federal Government to higher than appropriate telecommunications prices and less efficient telecommunications technology.

Thank you for this time and I will answer any questions, if you have any.

[The statement of Mr. Cole follows:]

TESTIMONY OF

CHARLIE COLE

VICE PRESIDENT OF MARKETING
AND REGULATORY AFFAIRS

WILTEL, INC.

BEFORE THE
HOUSE COMMITTEE ON APPROPRIATIONS
SUBCOMMITTEE ON TREASURY, POSTAL SERVICE,
AND GENERAL GOVERNMENT

APRIL 22, 1993

Good morning, Mr. Chairman and members of the subcommittee. My name is Charlie Cole. I am Vice President of Marketing and Regulatory Affairs for WilTel. I appreciate the opportunity to appear before you this morning. For the reasons that I will discuss, I urge the subcommittee not to include FTS2000 mandatory use as part of the 1994 appropriations bill.

Many people outside the telecommunications industry regard the debate over FTS2000 as a struggle among the "Big Three" long distance companies -- AT&T, Sprint, and MCI. The reality is that there are many smaller carriers -- WilTel, Metromedia, LDDS and others -- who are very concerned that FTS2000 mandatory use has eliminated their ability to compete for the provision of services to the federal government.

These smaller carriers are also concerned that FTS2000 mandatory use adversely affects competition in the commercial marketplace. To the extent that mandatory use enables the FTS2000 vendors to earn excess revenues by insulating them from the competitive pressures of the marketplace, they can use those excess revenues to subsidize their commercial offerings. Such cross-subsidization amounts to an enormous taxpayer-financed competitive advantage for AT&T and Sprint.

There are two specific points regarding FTS2000 mandatory use that I would like to share with the subcommittee today:

First, the Brooks Act already provides the GSA with ample authority to require agencies to use FTS2000; it is not necessary for this subcommittee to include FTS2000 mandatory use in the appropriations act.

I realize this is an important legal point for the subcommittee. Because I am an engineer, not an attorney, I asked the law firm of Hogan & Hartson to provide a legal opinion on this question. Their conclusion is quite clear: independent of statutory mandatory use language, GSA has sufficient authority under the Brooks Act to require federal agencies to use FTS2000. For your benefit, I have included their complete legal analysis as an attachment to my written statement.

Second, FTS2000 mandatory use deprives the federal government of lower prices and more efficient technology that competition can bring by eliminating true marketplace competition from the procurement process.

I strongly disagree with GSA's recent report to Congress regarding the cost-effectiveness of FTS2000 and with the study upon which that report was based. The study did not use the most relevant competitive rates. Instead, it used nominal tariff rates at a time when the industry's most intense competition took place through contracts negotiated between carriers and users. Flawed as it was, the study nevertheless found rates for several commercial services to be below those of FTS2000.

The United States government is the largest telecommunications user in the world -- bar none. It should receive the best prices available -- bar none. Members of Congress, the Administration and the American taxpayer should not be satisfied with prices that are "close to commercial prices." Instead, the federal government deserves and should demand prices that are substantially better than those available elsewhere. But with the mandatory use policy insulating the two FTS2000 vendors from the rigors of true competition and excluding all other possible vendors, the government is not getting the pricing it deserves.

In addition to preventing the government from obtaining the best prices, FTS2000 mandatory use has a chilling effect on the government's ability to upgrade the technology of its network. The FTS2000 vendors lack the competitive pressure to provide new and innovative services to the federal government, while the mandatory use policy restricts the ability of non-FTS2000 carriers to offer new technologies to the government.

This is a particularly critical concern as telecommunications technology continues to evolve at a rapid pace. The Clinton/Gore administration has made improving the nation's telecommunications infrastructure one of its priorities; FTS2000 mandatory use may prevent the federal government from obtaining the same improvements. In order to receive the best technology in a timely manner at the best price -- in order for its telecommunications infrastructure not to lag behind the commercial marketplace -- the government must ensure full and open competition for these new services.

In summary, Mr. Chairman and members of the subcommittee, I urge you not to adopt legislation that requires mandatory use of FTS2000. Such legislation is not necessary, leaves the administration with no discretion, and may condemn the federal government to higher than appropriate telecommunications prices and less efficient telecommunications technology.

Thank you. I'll answer any questions that you may have.

MANDATORY USE

Mr. HOYER. Thank you, Mr. Cole. We are going to try to move along relatively quickly and I want to say to everybody who is testifying, if, in fact, you hear things during the course of the hearing with which you disagree or on which you want to amplify, you will be able to submit additional written comments to the Committee. So that although the hearing may be brief, we will certainly be willing to accept additional comments.

If the mandatory use were eliminated, Mr. Cole, what impact do you think it would have on the present FTS 2000 contract?

Mr. COLE. I don't think it would have an effect on that. The GSA can force it where it is appropriate, but the use where there are opportunities for other agencies who have new requirements, the application of new technology, or bids that allow prices to be lower and forces those—or allows those agencies to obtain lower prices, then the ultimate benefit is the agency and the American taxpayer, so I don't think it will have a negative effect by not making it mandatory.

Mr. HOYER. What do you think about Chairman Brooks' comments supported by and followed on by Chairman Conyers' comments that the mandatory nature of the use is what makes it possible to effect the savings?

Mr. COLE. There are two issues there. One is, I do not think it is right that the mandatory use—because the current use—currently it does have mandatory use and those savings are being proposed as being current today.

The second thing is, the savings that are being talked about, in all due respect to the two Chairmen, are savings versus the old system and the issue here is not just that. It is the issue of the savings that could be effected by going to more competitive prices.

Those prices are substantially less than the government is paying and so therefore the savings that could be effected are substantially more and that is what, by not having mandatory use, would allow the government to get even greater savings that are possible today.

Mr. HOYER. Now, in your supportive material, obviously the legal from Hogan & Hartson, opinion deals with, as I understood your comments, the authority of GSA to act absent the language that mandates the use, which of course the President has included, as you know, back in his budget submission.

Mr. COLE. Yes.

Mr. HOYER. In addition, do you have documentation that in effect would make an analysis or has made an analysis as to the contention that you make of the price differential that most probably would occur absent the mandatory use language? Has that been done by anybody in the industry?

Mr. COLE. Yes, sir. There is a study by Dr. Michael Hills in the back of our testimony that addresses that issue.

Mr. HOYER. It is attached to your testimony?

Mr. COLE. Yes.

Mr. HOYER. I have not read your full testimony.

Mr. COLE. Yes, it is in there.

Mr. HOYER. I want to tell everybody here, I intend to read all the materials submitted. So you understand, if you submitted material—I don't promise to read every thing if you start boring me, I may skip over something—but I am going to look at all of it.

Thank you, Mr. Cole.

Mr. COLE. Thank you, Mr. Chairman

INTRODUCTION OF JONATHAN CRANE OF MCI

Mr. HOYER. Now, Mr. Crane with MCI.

Mr. CRANE. Thank you, Mr. Chairman. Good morning, I am Jonathan Crane, President of MCI's National Accounts Division. I have responsibility for all sales and marketing to high-volume users of telecommunications services in both the government and the commercial arenas.

I am pleased to be here this morning to present MCI's views on FTS 2000 mandatory use policy. I am going to summarize the written statement that I have submitted already. In short, MCI strongly opposes mandatory use as an anti-competitive policy which has been detrimental to the Federal Government and to competition within the industry. MCI was a pioneer in bringing competition to the telecommunications industry, and that competition has been a striking success. It has brought an explosion in innovative technology and technological development, unprecedented choices for businesses and consumers and a dramatic decline in long distance prices, more than 40 percent since the mid–1980s.

Mandatory use legislation denies Federal agencies the full benefits that this competition has produced. It is unnecessary, first and foremost. The GSA has ample authority under the Brooks Act to manage Federal agencies' use of FTS 2000. It directly conflicts with Federal policies to promote competition in the government procurement process and the long distance industry.

It has injured competition in the industry by allowing the two vendors to use excess profits to cross-subsidize bids in the intense competition for long distance customers. It has not produced the best deal for the government. MCI disagrees with the GSA's conclusion that FTS 2000 has and will deliver intercity telecommunications services in the most cost-effective manner.

It has the perverse effect of restricting all but the two vendors from furnishing the government a broad range of services not included within the scope of the FTS 2000 as competed in awarding. Adding new services without competition offers no assurance that such offerings will provide the optimal technical solution at the lowest cost.

The Federal Government is by far the largest telecommunications user in the world and should lead the market, obtaining the best services available at the lowest rates. While FTS 2000 unquestionably represents an improvement over the system that it replaced, mandatory use has condemned the program to follow, not lead the commercial market.

MCI applauds the efforts that led to the substantial reductions in FTS 2000 rates in the price redetermination process. In fact, but for mandatory use, these savings would have occurred much sooner. I caution this subcommittee, however, not to take the

claims of hundreds of millions of dollars in savings at face value. You have to ask yourselves, compared to what? Certainlty not compared to the best pricing in the commercial market.

In fact, absent mandatory use, open competition would have compelled the FTS 2000 vendors to implement such rate reductions much earlier in the program. Price redetermination lowered FTS 2000 rates to levels that the competitive marketplace had already achieved more than two years earlier. Intense competition has continued to drive prices down since 1990.

Now, I have brought my visual aid here this morning and I would like to refer you to the first chart. If the government had obtained competitive pricing at the same time as AT&T's commercial customers, we estimate that GSA would have paid roughly $250 million less for FTS 2000's switched voice services alone in fiscal years 1991 and 1992. When you also consider above-market rates for other FTS 2000 services and the GSA overhead surcharges of some 10 percent, agencies overpaid more than $300 million over the last two years.

Mr. HOYER. Is that graphic on your statement?

Mr. CRANE. Yes.

I asked earlier, what about the future? Well, while price redetermination brought rates down considerably, FTS 2000 rates are not the lowest available. You must look at this service-by-service. The GSA report relies on data that inflates the commercial voice cost by pricing roughly 35 percent of the calls at intrastate rates notwithstanding the interstate nature of the FTS 2000 offering. And as our second chart here shows, a true apples-to-apples comparison with all calls priced at interstate rates indicates that the FTS 2000 voice costs will exceed commercial equivalents this year by approximately $13.1 million. Even by GSA's calculations the FTS 2000 rates for point-to-point dedicated lines and video transmission services exceed commercial levels by nearly $9.8 million. So we are already looking almost $23 million in overpayment that to the government will make, and that does not include all services.

Even after price redetermination, FTS 2000 will cost roughly $23 million more, or 7 percent more than commercial equivalents for voice video transmission and dedicated line services. Those services account for about 97 percent of the FTS 2000 billings. Worse yet, the program continues to fall further behind the commercial market.

GSA claims that the unique government requirements, the UGR, such as 10-year fixed pricing, price redetermination, the publicly available price cap mechanism and the allocation of services between two vendors represent premiums that add value to the FTS 2000 relative to commercial offerings.

These factors do not account for the differences between FTS 2000 rates and commercial equivalents. Many are not unique to the government or FTS 2000. In the realities of the long distance marketplace, these UGRs actually make FTS 2000 less favorable to the government as compared to large commercial deals with which I am very familiar.

My statement addresses these in detail, but let me just give you some brief examples. Vigorous competition in long distance has resulted in significant rate reductions. I mentioned the 40 percent de-

cline since the mid-1980s. That trend is going to continue in the future. In this market, 10-year deals are extremely rare. Three-year, at most five-year, terms are the norm. Long-term contracts that fix rates at levels that will soon decline offer little, if any, value to the buyer who gains protection only from unlikely price increases.

Commercial customers demand and carriers grant the right to terminate without penalty if rates do increase. The government has less protection against price increases because the FTS 2000 contracts include economic price adjustment clauses which allow the vendors to raise rates in the event of significant increases in market rates.

The price redetermination process is not unique. Over a ten-year period, a long distance provider would expect to experience multiple competitions for a large commercial customer's business. Many large commercial customers pursue a multiple carrier strategy, continuously pitting service providers against each other to ensure the best price, technology and service. Unlike commercial customers who rely on this self-regulating mechanism of competition to keep rates low and quality high, GSA incurs substantial costs for personnel, associated overhead and consultants to administer these price caps to police the FTS 2000 rates.

If mandatory use continues in effect, the government will overpay because market prices will decline before price redetermination can adjust FTS 2000 rates downward in 1995. Price cap procedures will not guarantee the lowest rates for FTS 2000 over the next three years.

One, they compare FTS 2000 against only publicly available rates, which do not yield an accurate measurement of market levels because information on many large commercial deals are not public. They must rely on historical data and therefore ensure that the Federal Government will continue to lag behind declining commercial market pricing by months or even years, and they eliminate any competition between the FTS 2000 vendors until the price redetermination in 1995.

I would also add that May 1st, 1993, will be the beginning of probably the largest price decline in the history of our industry. The portability of 800 numbers is already fueling intense competition between all competitors in the long distance industry and customers are seeing tremendous price declines in their selection of long distance providers.

Several of the largest commercial contracts awarded of late have shown price declines of 30 to 40 percent in the prices which they were paying previously for redetermining their prices in their contracts.

In conclusion, MCI urges this subcommittee to eliminate mandatory use. Instead of erecting artificial barriers to competition, the government should rely on dynamic market forces to ensure that FTS 2000 vendors provide the best services at the lowest rates.

Allowing GSA and Federal agency users to leverage competition will conserve scarce tax dollars for agencies struggling to meet mission requirements and eliminate the taxpayer's subsidy to AT&T and Sprint in the marketplace beyond FTS 2000.

Thank you for this opportunity.

[The statement of Mr. Crane follows:]

STATEMENT OF

JONATHAN CRANE
PRESIDENT, NATIONAL ACCOUNTS DIVISION
MCI COMMUNICATIONS CORPORATION

REGARDING FTS 2000 MANDATORY USE

TREASURY, POSTAL SERVICE AND GENERAL GOVERNMENT
APPROPRIATIONS FOR FY 1994

SUBCOMMITTEE ON
TREASURY, POSTAL SERVICE AND GENERAL GOVERNMENT
COMMITTEE ON APPROPRIATIONS

UNITED STATES HOUSE OF REPRESENTATIVES

April 22, 1993

MCI Communications Corporation submits this statement as the Subcommittee on Treasury, Postal Service and General Government of the Committee on Appropriations receives and considers testimony on whether to continue the current provision which prohibits Executive Branch agencies from procuring services available under the FTS 2000 program from non-FTS 2000 sources, regardless of the availability of lower cost alternatives.

SUMMARY

Continuation of mandatory use in the FY 1994 appropriations is unnecessary and counter-productive. The General Services Administration (GSA) has ample authority under the Brooks Act to manage federal agency use of the FTS 2000 program. Elimination of mandatory use from the pending appropriations bill will not effect any change in existing policy. However, elimination of that language would restore to GSA the flexibility to exercise its Brooks Act authority to manage federal telecommunications procurement in the best interests of the government.

MCI strongly opposes mandatory use as an inherently anti-competitive restriction on the options of federal agencies to choose from long distance services available in the market.

- It directly conflicts with fundamental federal policies to promote competition in the government procurement process and the long distance telecommunications industry.

- It has not produced the best deal for the government. MCI disagrees with the GSA's conclusion that FTS 2000 has, and will, deliver intercity telecommunications services in the most cost effective manner.

Given the tremendous volumes included in FTS 2000, the government should lead the market, obtaining the best telecommunications services available at the lowest rates. While FTS 2000 unquestionably represents an improvement over the system that it replaced, mandatory use has condemned the program to follow, not lead, the commercial market.

MCI applauds the efforts of GSA that led to substantial reductions in FTS 2000 rates in the recently concluded price redetermination process. Nevertheless, absent mandatory use, open market competition would have compelled the FTS 2000 vendors to implement such rate reductions for the same or better services much earlier in the program.

"The GSA Report to Congress on the Cost Effectiveness of the FTS 2000 Program" (GSA Report) was completed in February 1993. It identified Option 72 of AT&T's Tariff 12 as a commercial benchmark of market levels for FTS 2000 switched voice service rates. AT&T filed Option 72 in the fall of 1990. Thus, price redetermination lowered FTS 2000 rates to levels that the competitive market produced **more than two years earlier**. Moreover, intense competition in the telecommunications industry has continued to drive prices down since 1990.

As illustrated in Charts 1 and 2, if the government had obtained competitive pricing at the same time as AT&T's commercial customers, GSA would have paid roughly **$250 million less** for FTS 2000 switched voice services in Fiscal Years 1991 and 1992. When you also consider above market rates for other FTS 2000 services and GSA overhead surcharges at 10% on all services, agencies overpaid more than **$300 million** over the last two years. That money could have reduced the deficit or provided additional funding for critical programs directly related to the fulfillment of agency missions.

Such overpricing not only wastes scarce tax dollars, it also enables the vendors to take excess profits to cross-subsidize bids in the intense competition for other long distance customers. While price redetermination brought rates down considerably, FTS 2000 rates are not the lowest available in the market, and the program is positioned to fall further behind, the commercial market.

Even by GSA's calculations, FTS 2000 rates for point-to-point dedicated lines and video transmission services exceed commercial levels by nearly $9.8 million. Moreover, the GSA Report relies on data that inflates the commercial voice costs by pricing roughly 35% of the calls at intrastate rates notwithstanding the interstate nature of the FTS 2000 offering. In Chart 3, a true apples-to-apples comparison with all calls priced at interstate rates indicates that FTS 2000 voice costs will exceed commercial equivalents this year by approximately $13.1 million. Thus, even after price redetermination, FTS 2000 will cost roughly $22.9 million, or 7%, more than commercial equivalents for voice, video transmission and dedicated line services, which account for nearly 97% of FTS 2000 billings.

GSA claims that "unique government requirements" (UGR) such as 10-year fixed pricing, price redetermination, the Publicly Available Price (PAP) cap mechanism and the allocation of services between two vendors represent premiums that add value to FTS 2000 relative to equivalent commercial offerings. However, these factors do not account for the differences between FTS 2000 rates and commercial equivalents. Many of the cited requirements are not unique to the government or FTS 2000. Moreover, in the realities of the long distance marketplace, these UGRs do not add value to FTS 2000, and actually make FTS 2000 less favorable to the government, as compared to deals with large commercial customers for equivalent services.

Vigorous competition in long distance has resulted in significant rate reductions over the past four years and that declining rate trend will continue in the future. In this dynamic market, ten year deals are extremely rare. Long term contracts that fix rates at levels that will soon decline offer little, if any, value to the buyer who gains protection only from unlikely price increases.

Over a ten year period, a long distance provider would expect to experience multiple competitions for a large commercial customer's business with, at most, a five year commitment. In addition, many large commercial customers pursue a multiple carrier strategy, continuously pitting service providers against each other to ensure the best price, technology and service. Large commercial customers demand, and carriers grant, the right to terminate without penalty if rates do increase.

In contrast, the government has less protection against price increases because the FTS 2000 contracts include "Economic Price Adjustment" clauses which allow the vendors to raise rates in the event of significant increases in market rates. Moreover, if the mandatory use provision continues in effect, the government will overpay because market prices will decline before price redetermination in 1995 can adjust FTS 2000 rates downward.

While arguably an improvement over its predecessors, the new Publicly Available Price (PAP) Cap procedures will not guarantee the lowest rates for FTS 2000 rates over the next three years. The PAP caps compare FTS 2000 rates against only publicly available rates, which do not yield an accurate measure of market levels because information on many deals, particularly with larger customers, is not public. Moreover, price caps must rely on historical data, and therefore ensure that the federal government will continue to lag behind declining commercial market pricing by months or even years. Finally, unlike commercial customers who rely on the self-regulating mechanism of competition to keep rates low and quality high, GSA incurs substantial costs for personnel, associated overhead, and consultants to administer price caps to police FTS 2000 rates.

Mandatory use also has the perverse effect of excluding all but the two FTS 2000 vendors from furnishing the government a broad range of services not included within the scope of FTS 2000 as competed and awarded. Modifying the "mandatory" FTS 2000 contracts to add new services without competition offers federal agencies no assurance that such offerings will provide the optimal technical solution at the lowest cost.

Instead of erecting artificial barriers to competition, the government should rely on dynamic market forces to ensure that the FTS 2000 vendors provide the best services at the lowest rates available. Maximizing competition will conserve scarce tax dollars for agencies struggling to meet mission requirements within increasingly tight budget constraints, and eliminate the taxpayer subsidy to AT&T and Sprint in the marketplace beyond FTS 2000.

DISCUSSION

In view of GSA's current authority to coordinate, direct, and manage federal telecommunications procurement under the Brooks Act, continuing mandatory use in the FY 1994 Treasury, Postal Service and General Government Appropriations is wholly unnecessary. Furthermore, given the history of the FTS 2000 program, it is a policy without justification. Perpetuating mandatory use in law will relegate the federal government -- the world's largest telecommunications user -- to the role of market follower when it should lead the marketplace in obtaining the best telecommunications services available at the lowest rates.

THE FTS 2000 PROGRAM AND MANDATORY USE

Origins of The FTS 2000 Concept

In the early 1980s, as emerging competition in long distance telecommunications began to drive down rates and to accelerate technological innovation, it became increasingly apparent that the federal government's private long distance telephone network, the Federal Telecommunications System (FTS),

was woefully inadequate. The FTS offered only voice and low-speed data transmission over an obsolete network of leased analog facilities first put in place in the 1960s. Compared to the new, more reliable, and faster digital services available in the marketplace, the FTS network cost far more, provided poor service quality, and offered no capability to customize services for increasingly sophisticated computer-based applications.

Recognizing the critical need for change, GSA began planning to replace FTS with a new program -- designated FTS 2000 -- to satisfy intercity telecommunications requirements on a government-wide basis. After extensive study and industry comment, GSA issued a Request for Proposals (RFP) for FTS 2000 in January 1987, which incorporated the following key concepts:

- Purchase of services, not a government network. GSA decided **not** to establish a separate long distance **network** (with purchased and/or leased facilities, switches and lines) which would have required GSA to invest in operating, maintaining and continually upgrading that network. Instead, the draft RFP contemplated procurement of a specific set of **services** with defined performance characteristics and standards. This approach charged the vendor with responsibility for maintaining and operating networks to provide state-of-the-art services.

- Tremendous government long distance traffic volumes, and long term contracting, should secure the lowest prices for FTS 2000 services. Long distance providers typically provide services at the lowest costs

to the highest volume users and those contracting for the longest periods. When GSA issued the FTS 2000 RFP, the United States Government was the world's largest purchaser of telecommunications services by several orders of magnitude -- and it remains so today. GSA reasoned that aggregating this immense volume of telecommunications requirements would yield "rock bottom" prices. The original FTS 2000 RFP contemplated award of a non-mandatory ten-year contract to a single vendor on the assumption that constant pressure from market competition would compel the vendor to provide the best services at the lowest rates.

- FTS 2000 limited to five specific services. In order to maximize competition, GSA limited the procurement to five basic long distance services:
  - o Switched Voice;
  - o Switched Data;
  - o Packet Switched Data;
  - o Video Transmission; and
  - o Dedicated Transmission (i.e., point-to-point circuits).

GSA included only those services for which many, if not all, government agencies would have requirements in common. The RFP did not include some commercially available services for which insufficient demand existed among government users, e.g., high capacity DS-3 transmission services. This approach necessarily contemplated that agencies would satisfy any need for unique services, or for higher performance, through separate procurements.

GSA Restructures Program

In response to concerns of the Office of Management and Budget (OMB) and the Congress about the effects of the single vendor approach on the continuing competitiveness of government telecommunications offerings and on nascent competition in the telecommunications industry, GSA restructured the FTS 2000 RFP, as follows:

- Two vendors to provide the FTS 2000 services. In an effort to promote competition and to prevent a single vendor from gaining sufficient market power to impair further development of a competitive telecommunications industry, GSA amended the RFP to provide for two contract awards. The winning vendor (the one with the best combination of price and technical solution) initially would receive 60 percent of the FTS 2000 business and the second-best offeror would get the remaining 40 percent.

- Periodic recompetition. The amended RFP provided for adjusting rates and potentially reallocating portions of the FTS 2000 business in a price redetermination/service reallocation process which would pit the two vendors against each other in years four and seven of the contemplated ten-year contract.

- Price caps. In an attempt to guarantee that FTS 2000 rates would compare favorably with those available in the commercial market throughout the life of the contract, the amended RFP included a

requirement that the vendors must maintain rates for switched voice services at or below the lowest publicly available price for such services from any AT&T, MCI, or Sprint.

- Service improvements. In an effort to ensure that FTS 2000 technology would keep pace with commercial offerings, GSA also amended the RFP to include a provision to permit modification of the contracts **without competition** to incorporate technological advances that would upgrade the performance of the specified FTS 2000 services and to adjust contract prices to reflect such improvements. This "Service improvements" provision did *not* authorize GSA to add new services to the contract that were not contained in the FTS 2000 RFP, whether such services were commercially available but omitted from the RFP or were subsequently developed and not commercially available at the issuance of the RFP.

- Mandatory Use. To provide potential offerors assurance of sufficient usage volume to warrant competing, GSA also added statements that the FTS 2000 program would be "mandatory for all federal agency activities" subject to the Brooks Act as implemented by GSA's Federal Information Resources Management Regulations (FIRMR). However, GSA did not offer an unconditional guarantee to continue this "mandatory use" policy throughout the life of the contracts. Sections H.4 and H.11 of the RFP expressly qualified that commitment by (a) limiting the government's contract obligation to purchasing only the minimum guaranteed dollar amounts of services,

and (b) reserving the right to procure from other sources to satisfy intercity telecommunications requirements in the event "significant performance problems occur, changes in market pricing occur, or significant changes in technology take place."

In December 1988, the FTS 2000 procurement process culminated in the award of ten year contracts to AT&T and Sprint to provide the five services on an indefinite delivery, indefinite quantity (IDIQ) basis. Under the IDIQ contracts, the government secured the right to purchase the specified services at fixed rates from the awardees over a ten-year period, while retaining the option to use other sources to satisfy requirements for those services as long as the government met minimum dollar guarantees. The contract framework would allow GSA the flexibility to maximize cost savings by leveraging competitive market forces to ensure that the FTS 2000 vendors furnish the highest quality telecommunications services at the lowest rates, and allowing procurement from non-FTS 2000 sources if they did not.

Treasury, Postal Service Appropriations Includes Mandatory Use

In response to concerns that the Defense Department might not participate in FTS 2000, the FY 1989 Treasury, Postal Service and General Government Appropriations included language which prohibited federal agencies subject to the Brooks Act from using appropriated funds to procure services available under FTS 2000 from non-FTS 2000 sources. The provision did authorize exceptions to this "mandatory use" requirement to permit separate procurements for "unique" or special purpose telecommunications requirements that FTS 2000 cannot satisfy.

The statutory language, however, did not authorize exceptions for procurement from non-FTS 2000 sources which offer comparable services at lower costs. Congress reenacted the mandatory use language in each of the next four fiscal years (FYs 1990-93).

FTS 2000 Has Not Kept Pace With the Commercial Market

FTS 2000 unquestionably represents a dramatic improvement in all significant respects over the old FTS. Service quality is much improved. FTS 2000 offers several services unavailable on the old FTS. And overall, the government has saved hundreds of millions of dollars when compared to what the old FTS would have cost. However, that out-moded and grossly overpriced system does not provide the relevant benchmark against which to measure FTS 2000 rates and services. The current telecommunications market provides the only appropriate standard for such cost and performance comparisons.

From the outset, the government sought to avoid the mistakes of the past by structuring FTS 2000 to provide agencies with telecommunications offerings competitive with the commercial market in service quality, technology and price. Unfortunately, FTS 2000 has failed to realize this fundamental goal.

The rapid pace of change has not slowed in the marketplace since the FTS 2000 contract awards. Intense competition in the domestic long distance industry has created a dynamic market environment marked by declining rates, consistent improvement in service quality and extraordinary technological advances. In the few months between the award of the FTS 2000 contracts in December 1988 and

the cutover to the new services in October 1989, market rates for the two primary FTS 2000 services (switched voice and dedicated transmission) declined precipitously -- by nearly 35%.

In June 1991, the General Accounting Office (GAO) issued a report ("GSA's Difficulties Managing FTS 2000"), which examined a number of serious problems with the program. Among those problems, GAO first voiced concerns that "while GSA is effectively enforcing mandatory use, in some cases compliance with the statute can cost agencies more for FTS 2000 services than they would pay under a separate contract."

In September 1991, the GAO issued another report ("FTS 2000: GSA Must Resolve Critical Pricing Issues"), which projected that FTS 2000 switched voice services would cost $148 million more than equivalent commercial services in just two years (Fiscal Years 1991 and 1992). The testimony of federal agencies at hearings before the Senate Governmental Affairs Committee in the last Congress provided specific examples of cost increases of millions of dollars incurred in converting to FTS 2000 to satisfy telecommunications requirements previously met with non-FTS 2000 services obtained in the open market.

In the past four years, high-volume commercial telecommunications users -- although dwarfed by comparison to federal usage levels -- consistently obtained more customized and higher quality long distance services at lower rates in the competitive marketplace than were available under FTS 2000. The two FTS 2000 vendors, AT&T and Sprint, have provided long distance services to some of their private sector customers at much lower costs than they made available to the

federal government under FTS 2000. As implemented, the FTS 2000 program has not kept up with these changes, causing the government to lag behind the market.

FTS 2000 Problems Raise Doubts About Mandatory Use

The problems with FTS 2000 led OMB to recommend, and Congress to add, a provision to the FY 1993 Appropriations that would end mandatory use after March 1, 1993 unless:

> the Administrator of General Services has reported to Congress that the FTS 2000 procurement is producing prices that allow the government to satisfy its requirement for such procurement in the most cost effective manner, and the President should issue an Executive Order mandating procurement and use of FTS 2000.

The current FY 1994 Budget proposal includes a similar provision, which changes the date for the GSA report to July 31, 1994 and deletes the direction to issue an Executive Order.

The Subcommittee weighs the fate of that provision in the context of a market environment equally, if not more, dynamic than existed in the first four years of the FTS 2000 program.

- Intense competition will continue the trend of declining prices in the telecommunications marketplace. The advent of 800 number portability on May 1, 1993, has produced frenetic competitive activity in the industry as customers for the first time will have the option to retain their valuable 800 numbers if they move from one carrier to another. An FCC mandate has

given customers the opportunity to renegotiate long term contracts that include inbound voice services.

- Competition also continues to accelerate the pace of technological change that drives cost down for greater functionality.

- Competitive access providers, cellular telephone carriers, cable TV companies, and even power utilities line up to compete with the local exchange companies (LEC) to provide customer access connections to the long distance network which still account for about 45% of every long distance call. Emerging competition for the LEC monopoly will drive access costs down and provide more room for additional reductions in long distance rates.

MANDATORY USE LANGUAGE IS UNNECESSARY

The General Services Administration (GSA) has extensive authority under existing law to conduct, direct and manage federal agency procurement of telecommunications services, including FTS 2000. The Brooks Act, 40 U.S.C. 759, authorizes and directs the GSA "to coordinate and provide for the economic and efficient purchase, lease, and maintenance of automatic data processing equipment by Federal Agencies." Since 1986, the definition of "automatic data processing equipment" has included telecommunications services. 40 U.S.C. 759(a)(2)(A).

With the limited exception of certain critical Defense Department telecommunications procurements, the courts and administrative tribunals have read the Brooks Act as conferring exclusive authority upon GSA to procure and manage telecommunications services for the federal government. See, e.g., Best Power Technology Sales Corp. v. Austin, 984 F.2d 1172, 1175-77 and n.3 (Fed. Cir. 1993); Communications Services, Inc., GSBCA No. 10665-P, Aug. 9, 1990, 90-3 BCA Para. 23,272, at 116,728. Under the Brooks Act, the Administrator may delegate authority to a federal agency to procure telecommunications services. 40 U.S.C 759(b)(2),(3). However, even when GSA delegates its exclusive procurement authority, the Administrator retains the right to review individual procurements and to revoke or suspend any delegation. 40 U.S.C. 759(b)(3). Thus, under the Brooks Act, GSA wields ample authority to determine what telecommunications service the government will procure to meet its requirements.

The Federal Information Resources Management Regulation (FIRMR), which implements the Brooks Act and has the force and effect of law, also recognizes and provides for "GSA's exclusive procurement authority" for telecommunications services. 41 C.F.R. 201-20.305(a)(1),(b)(1). Specifically with regard to FTS 2000, the FIRMR requires that:

> Federal agencies shall use the FTS2000 network to satisfy long distance telecommunications procurement requirements which are within the scope of FTS 2000 network voice, data, and video services as such services become available . . . . 41 C.F.R. 201-24.101-2(a).

Procedures for an agency to request that GSA grant an exception to the use of FTS2000 are described in detail in the FIRMR. See 41 C.F.R. 201-24.101-2(a), -3(b).

Elimination of mandatory use from the pending appropriations bill will not reduce or impair GSA's existing authority over federal telecommunications procurement. To the contrary, its elimination will restore to GSA the full scope of its broad Brooks Act authority to manage FTS 2000 in the best interests of the government.

MANDATORY USE IS INAPPROPRIATE PUBLIC POLICY

MCI's position rests on a simple premise: Given the tremendous volumes included in FTS 2000, the government should lead the market, obtaining the best telecommunications services available at the lowest rates. While FTS 2000 services and prices improved the government's position dramatically over the system that it replaced, the program has not kept pace with, much less led, the commercial telecommunications market.

MCI strongly opposes mandatory use as an inherently anti-competitive restriction on the options of federal agencies to choose from the long distance services available in the market.

- It directly conflicts with fundamental federal policies to promote competition in the government procurement process and the long distance telecommunications industry.

- It has not produced the best deal for the government. MCI disagrees with the conclusions of the GSA that FTS 2000 is, and will continue, delivering intercity telecommunications services in the "most cost effective manner."

Congress adopted the mandatory use requirement on the theory that maximizing agency participation and aggregating the government's unequaled traffic volumes would yield pricing for FTS 2000 services far below the rates paid by even the largest-volume private sector telecommunications users. Ironically, however, mandatory use has thwarted achievement of the FTS 2000 program's goals.

Mandatory Use Restricts Competition in Federal Procurement

Mandatory use runs directly counter to long-established federal policy to maximize competition in government procurement of goods and services. By prohibiting federal agencies from purchasing lower-priced services from non-FTS 2000 vendors, existing mandatory use language has created a strong disincentive for the two FTS 2000 vendors to maintain true competitiveness for both price and service. GSA officials have interpreted mandatory use such that cost is not a factor in determining whether agencies must use FTS 2000. Under these circumstances, mandatory use has deprived GSA of the flexibility inherent in the IDIQ contracts and under the Brooks Act to leverage marketplace competition to provide services at rates that lead the fiercely competitive long distance telecommunications market.

The original FTS 2000 contracts, as competed and awarded, included a specific set of five services, and did not include all current and future intercity telecommunications requirements of the government. However, GSA has yet to define the scope of the FTS 2000 contracts in a manner in which agency users, the FTS 2000 vendors or the rest of the information technology industry can reliably determine the bounds of those contracts. The failure to define the scope has fostered the erroneous perception of FTS 2000 as potentially elastic enough to encompass any and all telecommunications requirements.

Applied in the context of this unduly broad view of the scope of FTS 2000, mandatory use policy not only excludes competition for those services properly within the scope of FTS 2000. It also has the perverse effect of excluding all but the two FTS 2000 vendors from furnishing the government a broad range of services not included within the scope of the contracts as competed and awarded. Modifying the "mandatory" FTS 2000 contracts to add such services without competition offers federal agencies no assurance that such offerings will provide the optimal technical solution at the lowest cost. Moreover, limiting the federal intercity telecommunications market to two vendors for years to come will greatly diminish the ability and willingness of other vendors to compete for government business at the expiration of the FTS 2000 contracts in 1998.

Mandatory Use Distorts Competition in the Telecommunications Market

The anti-competitive effects of mandatory use extend beyond the federal procurement into the broader telecommunications marketplace. To the extent that mandatory use shields the FTS 2000 vendors from the pressures of dynamic

competitive market forces, the policy creates a safe haven which enable the vendors to charge above market rates for the large volume of services provided to the government. Such overpricing not only wastes scarce federal tax dollars, it also enables the vendors to take excess profits to cross-subsidize bids in competition for other large long distance customers.

Mandating agency use of new services added to FTS 2000 without competition also creates the potential for the government to subsidize the FTS 2000 vendors' development of technologies that other providers already have developed and made commercially available. Thus, not only does mandatory use limit government users' timely access to an incredibly diverse and dynamic array of services available on the marketplace, it also distorts the competitive dynamic in the broader telecommunications industry by providing the FTS 2000 vendors unfair competitive advantages -- at taxpayer expense -- in the market beyond the FTS 2000 program.

Mandatory Use Has Worked to the Government's Detriment in the Past

MCI applauds the efforts of Congress and GSA that helped to achieve substantial reductions in the FTS 2000 vendors' rates in the recently concluded price redetermination process. Nevertheless, absent mandatory use policy, open market competition would have compelled the FTS 2000 vendors to implement such rate reductions much earlier in the program.

"The GSA Report to Congress on the Cost Effectiveness of the FTS 2000 Program" (GSA Report) identified Option 72 of AT&T's Tariff 12 ($.0814 per

minute) as the lowest known commercial alternative against which to compare FTS 2000 rates. AT&T filed Option 72 with the Federal Communications Commission on October 1, 1990, with an effective date of November 15, 1990. Option 72 is available to customers purchasing approximately $1 million monthly in switched voice services over a three year term. Thus, the price redetermination lowered FTS 2000 rates to levels that the competitive market produced **more than two years earlier** for customers with less than one-tenth the volume of either FTS 2000 vendor for less than one-third the term.

Using GSA's figures, if the government had realized the benefits of competitive pricing levels at the same time as AT&T's commercial customers, GSA would have paid approximately **$250 million** less for FTS 2000 switched voice services in the two year period between December 1, 1990, and the effective date of prices after price redetermination December 1, 1992. See Charts 1 and 2.

When you also consider overcharges on other FTS 2000 services and GSA overhead surcharges at 10% of service rates, the total overpayment of federal agencies for FTS 2000 services climbs to almost **$300 million** for that two year period. That money that could have reduced the deficit or provided additional funding for critical programs directly related to agency missions. While the recent price redetermination process lowered FTS 2000 rates considerably, the government still has not assumed the position of market leadership clearly justified by the volume of services it purchases.

Price Redetermination Did Not Make the Government the Market Leader

While GSA apparently did a good job in conducting the price redetermination process, that mechanism suffers from inherent deficiencies to establishing the government as a market leader. First, the price redetermination process relies on imperfect competition in that only the two FTS 2000 vendors compete for a limited share of the business. Limiting competition to just the two vendors deprives the government of the maximum benefits of the intense competitive pressure from the multitude of other service providers which makes the commercial telecommunications market so dynamic. Second, as GAO testified before the Senate Governmental Affairs Committee over a year ago, the FTS 2000 program provided for competition only in the original procurement and at two points during the term of the contracts (years four and seven). Periodic price redeterminations do not provide **any** continuing competitive pressure on the FTS 2000 vendors to keep pace with market trends in the intervals between the specified competitions.

The recent GSA Report concluded that "the FTS 2000 procurement is producing prices that allow the Government to satisfy its requirements for such procurement in the most cost effective manner." GSA purportedly based its conclusions on a comparative analysis of rates for FTS 2000 and commercial equivalents conducted under the oversight of a committee drawn from the Interagency Management Council (IMC Committee).

While industry supplied a great deal of information to the IMC Committee, neither the Committee nor GSA reviewed the methodology or the results of their

respective comparative analyses with industry prior to reporting to Congress. Moreover, GSA has forbidden the consultants who performed the analysis for the IMC Committee from discussing or providing any information to industry concerning the analysis since GSA made its report to Congress. However, under careful analysis, the data indicates that GSA has drawn the wrong conclusion on the cost effectiveness of FTS 2000 rates.

The IMC Committee analysis compares only the recurring usage charges applicable to the services. The report does not address the substantial non-recurring charges that apply to installing and initiating FTS 2000 services, but which carriers frequently waive in contracts with large commercial customers. Nor does the report address the millions of dollars in fixed charges paid to the FTS 2000 vendors to establish and maintain the Service Oversight Centers. Commercial customers do not pay long distance providers separate charges for operations needed to provide and manage network services. Finally, the report does not mention the roughly $50 million in overhead charges that GSA spends annually overseeing and administering the FTS 2000 program.

Accordingly, the IMC Committee report expressly states that it "does not purport to evaluate the total cost effectiveness of FTS 2000." Nevertheless, even from the limited perspective of comparing usage rates only, the GSA Report incorrectly concluded that "FTS 2000 prices, in the aggregate, are at least as good as the best equivalent commercial prices."

In determining the commercial benchmark for FTS 2000 switched voice costs, the IMC Committee report includes a complicated computational exercise

to price 35% of the calls in the call sample, those which terminate and originate within the same state, under "intrastate" tariffs on file with state regulatory commissions applicable to commercial customers. However, the interstate/intrastate distinction applies uniquely to commercial customers. As the recently negotiated PAP Cap modification recognizes, FTS 2000 is an interstate offering and all calls should be priced under interstate rates. On average, commercial intrastate long distance rates exceed interstate rates, reflecting the generally higher costs for local access on commercial intrastate calls. As a result, GSA and the IMC Committee overstated the cost of switched voice calls priced at commercial rates. As illustrated Chart 3, in a true "apples-to-apples" comparison of switched voice rates with all calls priced at AT&T Tariff 12, Option 72 interstate rates, FTS 2000 voice costs ($.0813) would exceed commercial equivalents ($.0776) by roughly $13.1 million.

Even by GSA's reckoning, FTS 2000 rates for point-to-point dedicated lines and video transmission services exceed commercial levels by nearly $9.8 million. That analysis seemingly ignores the results of a competitive procurement for roughly 73 point-to-point T-1 services that the Postal Service conducted in the fall of 1991. Although deleted from the GSA Report, competitive procurement produced a monthly rate of approximately $153,864 based on public information on the awards, as compared to $234,420 under FTS 2000 for the same circuits, or roughly 52% higher. Nonetheless, using GSA's points of comparison, FTS 2000 costs exceed those of commercial equivalents by about $22.9 million for voice, video and dedicated services. Those three services accounted for almost 97% of the FTS 2000 billings for FY 1992.

The IMC Committee report expressly stated that they did not have sufficient data to draw valid comparisons between FTS 2000 and the commercial market for Packet Switched Services (not enough public data) and Switched Data Services (volume too low to develop statistically reliable sample). In other words, excluding Switched Data and Packet Switched Services for which reliable comparisons do not exist, FTS 2000 yields usage costs roughly 7% higher than commercial equivalents even after the substantial reductions obtained in the price redetermination.

"Unique Government Requirements" Do Not Account For The Gap

In May of 1991, GSA advised this Subcommittee that "enhanced FTS 2000 services" were "similar to those provided to large customers on commercial networks," and that GSA disagreed with the FTS 2000 vendors' claims that service differences accounted for the substantial price gap between FTS 2000 and commercial equivalents. Although the government's requirements for FTS 2000 have not changed, GSA now asserts that "unique government requirements" (UGRs) represent "premiums" that add value to FTS 2000 relative to equivalent commercial offerings. Based on this assertion, GSA concluded that, taken as a whole, the government's requirements could not be met at lower prices by commercial equivalent services.

Contrary to GSA's new found beliefs, UGRS do not account for the differences between FTS 2000 rates and commercial equivalents. Many of the cited requirements are not in any way unique to the government or FTS 2000. Furthermore, the UGR analysis does not account for several factors that actually

lower the vendors' risks and costs under the FTS 2000 contracts, as compared to commercial offerings.

Ten Year Fixed Pricing

In the dynamic, competitive telecommunications market, long term contracts that fix rates at levels that will soon decline offer little, if any, value to the buyer who only gains protection from unlikely price increases in a declining cost environment. Commercial customers have learned this lesson. Ten year deals are extremely rare in the commercial marketplace. That feature detracts from the value of FTS 2000.

Over a ten year period, a long distance provider would expect to compete for a large commercial customer's business several times with two, three, or, at most, five year commitments. Large commercial customers demand, and carriers grant, the right to terminate without penalty if rates do increase. For example, AT&T's Tariff 12 (Section 7.2.9) expressly waives the right to increase rates without the customer's agreement, and allows the customer to terminate without penalty if tariff rates do increase. In contrast, the government has less protection against price hikes because the FTS 2000 contracts allow the vendors to raise rates under "Economic Price Adjustment" clauses (Section H.10) in the event of significant increases in market rates.

Price Redetermination/Service Reallocation and Price Caps

Unlike commercial customers who rely on the self-regulating mechanism of competition to drive prices down and keep quality high, GSA must shoulder the onerous and costly administrative burdens associated with price redetermination

and price caps to police FTS 2000 rates. Accordingly, it would appear that these cumbersome administrative mechanisms actually reduce the value of FTS 2000 compared to commercial equivalents. It is ironic that the two primary mechanisms included in the FTS 2000 contract to ensure that the government obtains rates **at or below** commercial market levels would account for the **largest** UGR factors to justify rates **above** market levels.

Service Allocation

Allocating traffic between two or more vendors is hardly unique to the government. Many large commercial customers pursue a multiple carrier strategy, continuously pitting carriers against each other -- often with no guarantee of a set percentage of traffic -- to ensure the best price, technology and service.

Absorption of LEC Overhead

The FTS 2000 requirement for the contractors to provide a schedule of usage-based access charges does protect the government from increases in the cost of LEC services to provide access to the long distance networks. However, it also limits the government's ability to take advantage of decreases in the cost of LEC access that could be obtained from bulk purchase arrangements for access at high volume locations. Moreover, it will limit the government's ability to take advantage of cost decreases that inevitably will flow from emerging competition in the local access arena.

Termination Liability

The GSA report erroneously indicates that the FTS 2000 contracts include no termination liability. Both FTS 2000 contracts include termination liability in

the form of the standard "Termination for Convenience" clause (Section I.60), which allows the contractor to recoup costs attributable to an early termination by the government. Accordingly, the FTS 2000 contracts differ from commercial contracts, which have individually negotiated termination charges.

Proposal Preparation

While the FTS 2000 vendors did not disclose to GSA or the IMC Committee any figures for proposal preparation, winning the ten year FTS 2000 contract clearly involved a significant proposal effort and costs. However, over a ten year period, a long distance provider would have to prepare several detailed proposals to obtain and retain a large commercial customer's business. The provider would have to recover the costs of preparing those proposals from the rates charged for services to such customers. Accordingly, this factor hardly distinguished FTS 2000 from commercial equivalents.

Credit Adjustments

Carriers provide credit adjustments to all customers who encounter dialing or other service difficulties, whether commercial, government or consumer. The availability of such adjustments does not increase the customer's rate or add any separate charge.

Grade of Service

Grade of Service (GOS) is a measure of call blocking. The FTS 2000 contracts require the vendors to provide switched services with a GOS of P.07, i.e., blocking no more than 7 out of every 100 calls dialed. Although P.07 represents a vast improvement over the old system that FTS 2000 replaced, that

requirement falls far short of existing standards for commercial service where customers typically will not tolerate blocking factors higher than 2% (P.02). Providing services to meet the less stringent FTS 2000 blocking standards should cost less, and certainly no more, than services provided to commercial customers.

National Security Emergency Preparedness (NSEP)

The FCC mandates under the Telecommunications Service Priority System that all communications carriers develop plans and capabilities to maintain a state of readiness, to respond to manage any event or crisis which causes or could cause harm to the population, damage property, or threaten the security of the United States. Therefore, all carriers must have capabilities already built into the network operations to meet NSEP needs of the government in the event of natural disasters, civil and wartime crisis situations.

Billing Systems

Long distance providers frequently offer customized billing systems to a particular customer's needs and do so at no additional charge or increase in rates. MCI, for example, developed a completely new billing system to meet the requirements of its contract with the Defense Commercial Communications Office to provide international switched voice services to the government. The contract does not include any separate charge for development of that system.

In sum, most UGRs are not unique. They do not add value to FTS 2000. Several actually make FTS 2000 less favorable to the government, as compared to deals that large commercial customers have obtained for equivalent services.

The few requirements that actually may be unique to the government must be weighed against those factors that reduce the value of FTS 2000 compared to commercial offerings. At best, that comparison results in a wash. More likely, it would tilt the balance of increased value to commercial offerings.

PAP Caps Will Not Enable the Government to Catch Up

As evidenced by overpayments in the millions, contractual price caps and indexes have proven completely ineffective at maintaining FTS 2000 rates at or below commercial levels in the past. Difficulties in establishing the appropriate commercial benchmark against which to measure FTS 2000 rates rendered the limited price protections in the contracts all but unenforceable. While arguably an improvement over its predecessors, the new PAP Cap procedures suffer many of the same inherent deficiencies of prior mechanisms and will not guarantee the lowest rates for FTS 2000 rates in the period before the next price redetermination.

Any price cap mechanism will compare FTS 2000 rates against only publicly available information on rates, which does not yield an accurate measure of market levels because complete information on many deals, particularly with larger customers, are not in the public domain. The IMC Committee, GSA, and GAO all acknowledge that the terms of service arrangements with large commercial customers often are not publicly available and that new PAP Caps do not guarantee that the government will obtain the lowest rates for FTS 2000 in such a market environment.

Price cap procedures must rely on historical data, and therefore ensure that the federal government, at best, will continue to **lag behind** declining commercial market pricing by months or even years. By definition, another customer must first obtain lower rates before the government -- the highest volume purchaser of telecommunications services -- can get the benefits of a reduction.

In addition to flaws inherent in any price cap mechanism applied in a declining-cost market, the new PAP Cap provisions contain other anomalies that will detract from their effectiveness in establishing the government as a market leader. For instance, any price adjustment under the new PAP Caps applies only prospectively, thereby depriving the government of any chance to recover savings lost because FTS 2000 rates fail to decline as market prices do.

In another example, the new PAP Cap modifications inexplicably exclude each FTS 2000 vendor's offering from the offerings used as benchmarks for adjusting rates. Given GSA's UGR assertions, it would appear that the FTS 2000 offerings would provide the ideal point of comparison for the other vendor's rates. The exclusion of those offerings from the PAP Cap analysis effectively eliminates any competition between the two FTS 2000 vendors until the next price redetermination in 1995.

Finally, the new PAP Cap procedures ensure that FTS 2000 prices will move downward with market rates only to a specified level. Beyond that level, the PAP Caps allow the FTS 2000 vendors to terminate the contract with respect to the service(s) affected and renegotiate a new deal. Aside from the novelty of such an arrangement in federal procurement, this provision effectively limits the

government's ability to take advantage of declining rates in the telecommunications marketplace.

CONCLUSION

COMPETITION PROVIDES THE SOLUTION

FTS 2000 has not worked as envisioned. The problems do not lie primarily with either the original concept or the contracts. Rather, mandatory use has deprived the government of the primary benefits of the FTS 2000 program. The threat of direct competition from alternate sources would serve as the strongest incentive to the FTS 2000 vendors to offer market-competitive prices and services in order to retain the government's business. However, by requiring federal agencies to obtain long distance services from FTS 2000 for virtually all requirements regardless of the price, quality, or level of service that FTS 2000 offers, mandatory use substantially weakens or eliminates incentives to provide optimal state-of-the-art services at the lowest rates. Federal agencies and, ultimately, the taxpayers must pay the costs resulting from the absence of these incentives.

Federal telecommunications and procurement policies provide a very simple solution to this problem. It does not require abandoning FTS 2000. Nor does it require abrogating or legislatively nullifying the two FTS 2000 contracts; indeed, it would ensure that the government fully meets all obligations contained in those two contracts.

In short, the law should require federal agencies to use FTS 2000 to satisfy government requirements for long distance only if FTS 2000 offers the best obtainable mix of quality, service, and price. However, if an agency determines that a separate competitive procurement likely will produce comparable or superior service at a lower overall cost (including any incremental procurement and/or program costs) for a specific intercity communications requirement, government policy should permit the agency to proceed with a separate procurement.

Giving agencies the flexibility to consider alternatives to FTS 2000 is unlikely to result in a proliferation of separate procurements. The authority vested in GSA under the Brooks Act is more than sufficient to ensure economic and efficient procurement decisions while, at the same time, providing GSA with continuing leverage of dynamic competitive forces to ensure that the FTS 2000 vendors provide prices, quality, and service that leads the marketplace.

A shift toward competition will conserve scarce procurement dollars for agencies struggling to meet mission requirements with increasingly constrained budgets, to the benefit of the federal government and taxpayers. In addition, competition will eliminate the distorting effects of the safe haven that has provided a taxpayer subsidy to AT&T and Sprint in the marketplace beyond FTS 2000.

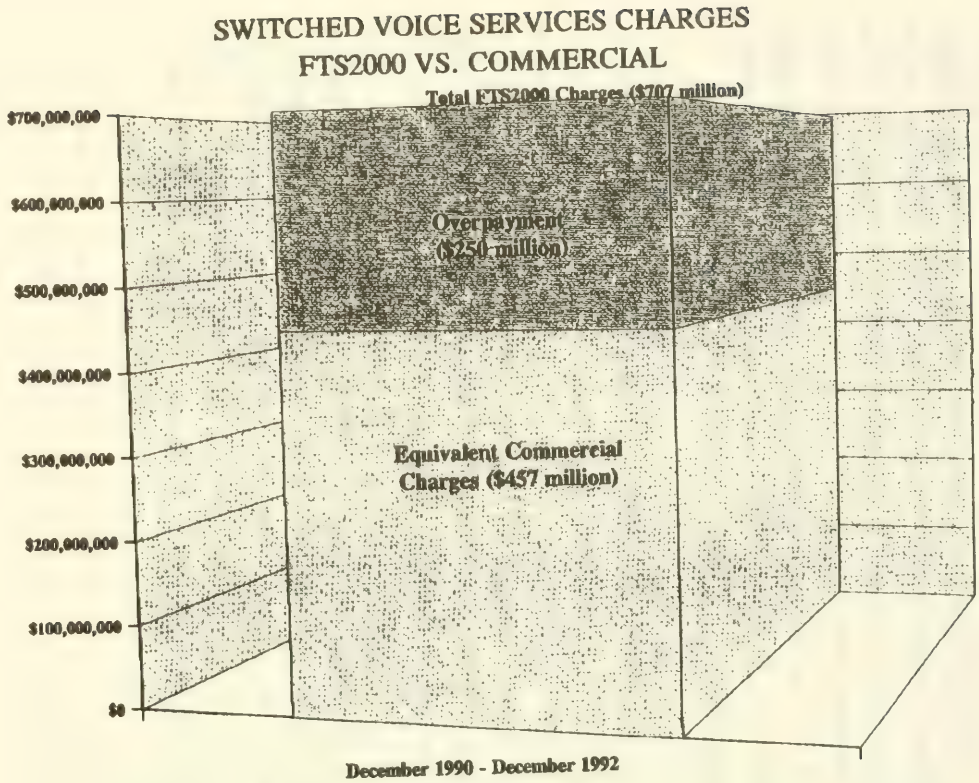

SWITCHED VOICE SERVICES CHARGES
FTS2000 VS. COMMERCIAL
Total FTS2000 Charges ($707 million)
$700,000,000
$600,000,000
$500,000,000
$400,000,000
$300,000,000
$200,000,000
$100,000,000
$0
Overpayment
($250 million)
Equivalent Commercial
Charges ($457 million)
December 1990 - December 1992

CHART 1

FTS 2000 VS. COMMERCIAL
DECEMBER 1990 - DECEMBER 1992

		FTS 2000		COMMERCIAL	
	MINUTES	RATES	COST	RATES	COST
FY 1991 *	1,791.8	$. 132	$ 236.41	$ .0814	$ 145.78
FY 1992 **	3,232.0	$ .126	$ 407.23	$ .0814	$ 263.10
FY 1993 ***	590.8	$ .108	$ 63.81	$ .0814	$ 48.09
TOTAL:			$ 707.45		$ 456.97

NOTES:

(All numbers in millions except rates.)

* FY 1991 is the period 12/01/91 through 9/30/91. Source: Office of FTS 2000, Information Technology Fund, FY 1993 Budget Justification ("GSA Justification").

** Source: IRMS FY 1994 Budget Justification and GSA press releases.

*** FT 1993 reflects the period from 10/01/92 - 12/01/92. Source: GSA Report to Congress on the Cost Effectiveness of the FTS 2000 Program ("GSA Report") and GSA press releases.

CHART 2

AGGREGATE COMPARISON FY 1993 PROJECTIONS

SERVICE	FTS2000 PRICE ($M)	COMMERCIAL PRICE ($M)	ANTICIPATED OVERPAYMENT
Voice	$288,192,240	$275,076,480	$13,115,760
Dedicated Lines	$58,900,000	$49,400,000	$9,500,000
Videoconferencing	$2,400,000	$2,100,000	$300,000
TOTAL:	$349,492,240	$326,576,480	**$22,915,760**

NOTES:

1) Voice rates(s): 295,400,000 monthly minutes (GSA Report) x 12 x .0813 (SK&A) for FTS 2000 and .0776 for commercial. .0776 is the average INTERSTATE SVS rate for Networks A and B ((.0780 + .0771)/2 = .0776).

2) Dedicated Line rates from GSA Report, February 1993 ("GSA Report").

3) Videoconferencing price from GSA Report.

4) Does not include Packet Switched Service and Switched Data Service. GSA lacked sufficient data to support a valid comparison.

CHART 3

EFFECT ON PRICE ELIMINATING MANDATORY USE

Mr. HOYER. Let me ask you, Mr. Crane. You have been obviously in this business for some time, I presume. Assuming that you do not have mandatory use and you are competing for a smaller share of a divided market, what effect does that have on price?

Mr. CRANE. The opportunity to serve the government is always an allure for any long distance provider and therefore the price competition for government procurement has always been intense. That is true in the large commercial market as well. The opportunity to get in the door and demonstrate capability, whether you are a smaller corporation like WilTel, or a larger corporation like ourselves, the opportunity to compete is typically on price as well as functionality. So you have got to be price oriented in your offerings.

The fact that technology has changed so dramatically, the technology is allowing for greatly decreased prices to be offered to participants, so where a volume used to be set at a higher level for which you would get a certain price, going forward, the costs are changing in the industry such that you can offer pricing that is substantially better than previously, and still be very aggressive relative to the volume and turnover and so forth.

So when we look at mandatory use, there is a minimum requirement that the agencies must provide to the two winning competitors, but there is an overage that is achieved that can be redistributed to other players and the pricing that the government will achieve will be similarly better than in fact what they incur today.

Mr. HOYER. Let me see if I follow you. Economy of scale and efficiency of operation, as you grow in terms of size and volume of your customer's business, at what point in time does that no longer make a substantial difference? Is that what you said?

Mr. CRANE. Yes.

Mr. HOYER. Because of the technology available. But is that correct?

Mr. CRANE. When you offer contracts to large users, you price based on minimum commitments and you do your cost analysis based on that, so your profitability index is set on the minimums. If you get a participant to achieve over the minimums, then your profits will go up. So when you bid, you are bidding on a price and cost determination that that really is that minimum achievement level.

Mr. HOYER. The higher the minimums, the lower the cost?

Mr. CRANE. Yes, in terms of price. The higher the minimums, the lower the price. And the longer the term, the lower the price as well.

Mr. HOYER. If that is correct, wouldn't it follow that the larger the pool, theoretically—I understand a lot of you are saying that the theory is not working, we are not, in fact, getting what we would otherwise get—but theoretically, we would get the lower price? To that extent, Chairmen Brooks and Conyers are correct. If it worked the way they believe it is working, would in fact it logically follow that because you have a larger pool, and therefore a larger minimum pool, that the price advantage would, in fact, be small or lower?

Mr. CRANE. Yes, on a like basis, if in fact there was a comparative. The problem is the government does not have a comparative. So our adage has always been for the government at the volume and the term that has been committed, why are the prices not the lowest in the industry by far?

And in fact, they are already above the lowest available commercial rates, and they are likely to go much more above as the 800-number portability wave starts hitting commercial competition. We can already see that in customers like GE and IBM and GM and others who are right now renegotiating their contracts. Their pricing is going to go down substantially. This window of opportunity is going to be missed by the FTS 2000 program because you won't have a chance to relook at that until 1995.

PROCESS USED TO DETERMINE LOWEST PRICE

Mr. HOYER. If you were advising the General Services Administration, and of course you are at this point in time in one way, what would you advise them, in light of the fact there is not a comparable size user to determine whether or not—how to determine whether they are getting the lowest best price?

Mr. CRANE. There is an analysis that can be done and has been done of the commercial rates available as best it can be determined. My sense is that there should be an index that is always below that which would then make sure that the government was indexing against available commercial rates and was always getting preferential, beneficial treatment.

My sense is you can allow the marketplace to provide for that because competition, being inside of the opportunities for various agencies, will force a reanalysis on a constant basis. In the commercial market, for example, on Tariff 12's, which are rendered by AT&T to their large commercial clients, they have been issued the last four years to the GEs of the world. Those have been renegotiated three or four times and are now being reset again as 800-number portability is offered in 1993. So my sense is, there must be an index for the government which should be below where the commercial rate structure is, and it should be redone on a constant basis.

Mr. HOYER. Is there any formula, and I know this is very simplistic, but, for instance, if you have a 50 percent larger minimum pool, is there a factor by which your basic price would be reduced? In other words, could I take a small user, a medium-size user, and a large user, and apply a 100 percent formula higher than that? Would there be any comparable analysis that you could apply to a user, like the government, which has no competitor?

Mr. CRANE. You can use the Tariff 12 rate structures that are filed by AT&T. You can use their options that are filed to determine volume and determine its effect on price. Then, given the volume and term of the Federal Government, you could then index against that some reasonable percentage discount against those terms or rates.

Mr. HOYER. Do you know whether GSA has done that?

Mr. CRANE. I don't know if they have done it. Although I know they have done a comparative study of commercial rates.

Mr. HOYER. The reasonable question then would be whether they have done that? We will ask them. Mr. Lightfoot.

FTS 2000 ADMINISTRATIVE COSTS

Mr. LIGHTFOOT. Thank you, Mr. Chairman. With the size of FTS 2000, the growth in the office, does this indicate that maybe we do need to do a little streamlining, or how do we account for the big increase in the size of the office, I guess would be the question.

Mr. CRANE. If you are talking about the oversight of the FTS 2000, there are now some 340 people on the GSA staff which is costing the government $53.2 million. In order to oversee the FTS 2000 rate price cap contract, it is taking so much analysis and staff work that it is necessitating all of these bodies.

My argument would be, let the marketplace determine the competitive values and therefore you would not require the oversight, which is a policing agency basically, to look at whether or not all the rate structures are in compliance and all the vendors are doing what they are supposed to do.

The commercial environment has already demonstrated a willingness to substantially reduce telecommunications staffs by either substantially reducing their body count and their businesses or by out sourcing that activity to other companies that would do that service for them.

And so many of the largest corporations in the United States have, over the last couple of years, substantially reduced personnel in their telecommunications staffs and in their information management staffs because they believe that the competitive market forces are allowing them to get the best rates and best services.

RELATIONSHIP TO CONTRACT AWARD PROCESS

Mr. LIGHTFOOT. You were an unsuccessful bidder, correct?

Mr. CRANE. We were a subcontractor to an unsuccessful bidder, yes.

Mr. LIGHTFOOT. With the changes in technology and so on that we have seen since the time that the original bids were let, does that, if it were to be done again, put you in a more favorable position?

Mr. CRANE. If the FTS 2000 was redone again and rebid, we would be a competitive entity in the process of bidding. We think that we certainly would be a strong player, but that determination would be in the hands of the GSA.

My sense is that there are new technologies that are not being considered at the moment. WilTel certainly has proffered those, we have as well. Those are not being considered and cannot be considered under a mandatory use environment.

But we, again, obviously would be a strong competitor for any new opportunity that would occur. But we are not advocating the destruction of FTS 2000. We are simply advocating elimination of mandatory use within that structure.

MANDATORY USE

Mr. LIGHTFOOT. You mentioned mandatory use which is a phrase that I guess has different meanings to different people. This is

probably a better question for GSA, but at the same time, what is your perspective that if the mandatory use language were dropped, as I interpret it, GSA still is in the position of saying that if you—whatever is best for the government, we are going to do anyway regardless of whether the mandatory use language is there.

I guess your opinion, your perspective, obviously would be helpful. I assume you would like to see the mandatory language dropped.

Mr. CRANE. Yes.

Mr. LIGHTFOOT. But could an argument be made on the other side that the protections are still there because GSA has the authority to determine what is best for the government without the mandatory use language in the package?

Mr. CRANE. That is correct. If you look at some of the clauses in the contract, it does not contain an unconditional grant of mandatory use. There are performance problems that could result in changes, changes in marketplace pricing and technology that allow for the proper selection, and I would argue that in the commercial market, that is exactly what is done, that even under a contractual arrangement. There is rebidding and redetermination of pricing based on the emergence of new technologies, new offerings, changes in the business structure, or new approaches by the particular business, that would necessitate it seeking some other provider for those sets of services. If the government is willing to take the lead in terms of competitive activity, new technologies—I have heard the President speak of often—then the question is, can you procure those competitive technologies from just two vendors. I would argue that you cannot.

Mr. LIGHTFOOT. Thank you. Thank you, Mr. Chairman.

Mr. HOYER. Mr. Visclosky and Mr. Istook are here. Let me tell both of you, I have to leave at 10:20. I intend to have the hearing continue. Mr. Crane, I presume you are going to stay through the whole hearing?

Mr. CRANE. I can do that.

Mr. HOYER. If you are going to, perhaps we hear from AT&T and Sprint, who are the contractors who have the contract, and then from GSA, and then if we have additional questions we can call you back and ask some more questions. I don't want to cut anybody off if you have a question right now, but I would like to hear from those folks before I leave if possible.

Mr. ISTOOK. Certainly. I would like, since we do have some people from Oklahoma, I certainly wanted to welcome Mr. Cole.

Mr. HOYER. Absolutely, I am sorry. That is a special concern.

Mr. ISTOOK. That is a special concern, and I certainly appreciate the time restrictions that the Chairman has. I was asked and I would like to do WilTel, as an Oklahoma company, the courtesy. We have obtained an article from Data Communications magazine that has some information about WilTel that I would like to ask be inserted in the record.

Mr. HOYER. Without objection.

[The information follows:]

DataCommunications
DATA COMM USER SURVEY

By Johna Till Johnson, Data Communications

Users Rate Long-Distance Carriers

AT&T is still the top choice, but MCI and WilTel are gaining ground

Data Comm MAGAZINE USER SURVEY

Another year, another first-place finish for AT&T. For the third year in a row, respondents to the DATA COMM User Survey on long-distance carriers gave AT&T the Best Overall and Best Technology awards. Once again, AT&T also walked away with top scores in every single technology category. It's the same old story—or is it?

This year AT&T faced stiffer challenges than ever before in both service and technology. MCI Communications Corp. (Washington, D.C.) won the Best Service award for the second straight year, besting AT&T in four of the seven customer support categories.

MCI also narrowed the gap in technology. While AT&T's technology ratings remained essentially the same as last year's, MCI posted gains in circuit quality, uptime, and network management, inching its technology score closer to that of AT&T. In fact, this year MCI edged out Sprint Corp. (Kansas City, Mo.) to place second in the technology ratings (see table).

And MCI isn't the only carrier giving AT&T a run for its money. Network managers are paying more attention to Williams Telecommunications Group (WilTel, Tulsa,

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Best Overall

AT&T

Data Comm MAGAZINE USERS' CHOICE August 1992

AT&T took top honors for overall satisfaction in the DATA COMM User Survey of long-distance carriers for the third straight year. Once again, a strong performance in the technology categories was the key: Users rated the carrier tops in every single category for switched and private-line circuits.

Users Rate Long-Distance Carriers

Okla.), yielding some of the most intriguing results in this year's survey. WilTel achieved the highest technology ratings ever reported in a User Survey of long-distance carriers, and the company outshone AT&T in every single technology category for private-line services.

Unfortunately, WilTel did not garner enough responses to be listed in the main table. Only seven survey respondents said they used WilTel for switched services, which is too small a sample to be considered statistically valid (see "What About WilTel?" for a separate table with WilTel's ratings). Nevertheless, users rated the company highly both on the survey questionnaire and in follow-up telephone interviews, boding well for WilTel's performance in next year's survey.

Among the other trends reported:

□ Users are happiest with their carriers' technology. As in previous years, scores in technology categories are higher than those in service categories. Respondents used adjectives like slick, excellent, and wonderful to describe their providers' technology, and few had any complaints in this area. All the users interviewed say that when an outage does occur, the carrier fixes the problem within hours, and often within minutes.

□ Service counts just as much as technology in the choice of a carrier. "My users don't care what [the service] works on, they only care that it works," says one respondent. And when it comes to service, the best thing carriers can do is use the telephone. Several managers report that the thing that makes them happiest about their carriers is the knowledge that "*they* call *us* when there's a problem."

□ Users want to know more about tariff changes and new services. In fact, all carriers ranked lowest in providing information about new tariffs and services. Respondents say the carriers' account representatives often don't have the information they need, and many grumble that they get most of their information from trade publications.

□ Carriers need to be more flexible with billing. No customer likes to get a bill, but respondents rate billing accuracy and format second lowest, after providing new service and tariff information. The biggest complaint is that carriers won't format their bills in a way that managers can

Long-Distance Scorecard

	Switched services				Private-line services			
	AT&T	**MCI**	**Sprint**	**Other[1]**	**AT&T**	**MCI**	**Sprint**	**Other[1]**
Number of responses	330	135	94	65	314	117	69	106
TECHNOLOGY								
User-controlled network monitoring and management	Not applicable	Not applicable	Not applicable	Not applicable	**3.75**	3.65	3.55	3.54
Circuit quality: transmission	**4.19**	4.04	4.01	3.97	**4.09**	3.88	3.89	3.94
Circuit quality: network synchronization	**4.11**	3.94	3.81	4.00	**4.07**	3.83	3.85	3.90
Circuit quality: bit-error rate	**4.08**	3.88	3.90	3.89	**4.10**	3.79	3.82	3.87
Circuit uptime per month	**4.26**	4.09	4.00	4.24	**4.13**	3.85	3.73	3.90
Call setup speed	**4.08**	3.79	3.66	3.70	Not applicable	Not applicable	Not applicable	Not applicable
Circuit availability	**4.21**	4.02	3.92	4.07	**4.15**	3.97	3.87	4.00
Circuit reliability	**4.15**	4.03	3.90	4.05	**4.12**	3.85	3.86	3.84
MEAN SCORE (Technology)	**4.16**	3.99	3.90	4.00	**4.08**	3.84	3.81	3.89
CUSTOMER SUPPORT								
Assistance in planning	3.66	**3.70**	3.63	3.56	**3.67**	3.65	3.47	3.43
Timeliness of installation	3.54	**3.74**	3.53	3.63	3.60	**3.70**	3.41	3.47
Billing accuracy and format	3.47	**3.56**	3.37	3.49	3.49	**3.72**	3.33	3.51
Troubleshooting skill	**3.68**	3.60	3.55	3.45	**3.74**	3.59	3.37	3.40
Timeliness of repairs	**3.62**	3.60	3.38	3.53	**3.69**	3.61	3.31	3.49
Providing information about new services and tariff changes	3.31	**3.48**	3.20	3.23	3.30	**3.34**	3.23	3.07
Maintenance	3.66	3.61	3.45	**3.69**	**3.68**	3.61	3.43	3.53
MEAN SCORE (Customer Support)	3.57	**3.60**	3.38	3.50	3.60	**3.61**	3.36	3.41
MEAN SCORE (Overall)	**3.87**	3.80	3.65	3.75	**3.84**	3.73	3.57	3.64

1. Includes Williams Telecommunications Group (WilTel)

Responses were scored on the following scale: 5 = Excellent; 4 = Very Good; 3 = Good; 2 = Fair; 1 = Poor

use. One manager says AT&T sought a $42,000-a-year surcharge for providing bills on magnetic tape. Another faults MCI for sending bills based on the carrier's schedule, not his—he wants them monthly, but he says MCI has an internal billing cycle.

□ Well-established technologies, such as dedicated T1 links and switched circuits operating at 56 kbit/s or less, are by far the most common services provided. Moreover, most respondents say that if they expand their networks they'll use the same types of services. Traditional applications also remain the rule. More than four-fifths of respondents say they use long-distance services for terminal-to-host traffic. However, LAN interconnect was the second most prevalent application, used by nearly two-thirds of all respondents.

□ The U.S. government's FTS2000 network gets mixed reviews. Three years ago, Sprint and AT&T won the contract to build a voice and data network for government agencies, including the National Aeronautics and Space Administration, the Justice Department, the Postal Service, and the Internal Revenue Service. Respondents who use the network say they're reasonably satisfied with it—but they don't think it represents an improvement over their earlier networks.

Combined scores

AT&T	MCI	Sprint	Other[1]	All carriers and services
644	252	163	171	
3.75	3.65	3.55	3.54	3.68
4.14	3.97	3.96	3.95	4.06
4.09	3.89	3.83	3.94	3.99
4.09	3.84	3.87	3.88	3.98
4.20	3.98	3.88	4.03	4.09
4.08	3.79	3.66	3.70	3.91
4.18	4.00	3.90	4.03	4.08
4.14	3.95	3.88	3.92	4.04
4.12	3.91	3.86	3.93	4.02
3.66	**3.68**	3.56	3.48	3.63
3.57	**3.72**	3.47	3.53	3.58
3.48	**3.64**	3.35	3.50	3.50
3.71	3.60	3.47	3.42	3.62
3.66	3.60	3.35	3.50	3.59
3.31	**3.42**	3.21	3.13	3.29
3.67	3.61	3.44	3.59	3.62
3.59	**3.61**	3.38	3.45	3.55
3.85	**3.76**	3.63	3.68	3.78

TERRIFIC TECHNOLOGY

As noted, AT&T scored the highest ratings in the survey in all technology categories, including circuit uptime, circuit quality, availability, and reliability. AT&T user Lewis R. Greer, a systems engineer in the Federal Aviation Administration/Airways Facilities Sector (FAA/AFS, Hilliard, Fla.), says he rated the company highly because its technology is better than anyone else's. Greer says he rarely has outages, and when he does they are repaired quickly—often within minutes.

Craig Haley, a network analyst at America West Airlines (Phoenix) and an AT&T user, gives the carrier high marks for delivering technology as promised. "They say they're going to deliver something, and they deliver it," he says.

AT&T also earned the highest score for its troubleshooting ability. "I can't fault AT&T at delivering service and keeping it working," says Haley. "They're excellent at that."

Lewis praises the technical skill of AT&T's engineers when it comes to network design. "We work together with their engineers in getting the lines installed, and they're very responsive to our needs."

The lowest technology scores for AT&T—and the other carriers—came in the categories of user-controlled network monitoring and management for private lines. As is often the case with network management, the problem isn't so much the management system as a mismatch between what the users want and what the vendor has chosen to provide.

Haley gave the network management system a relatively poor score because he felt the platform was too expensive. When he first purchased the system, he says, AT&T offered its monitoring and control software on a Sun Microsystems Inc. Sparcstation, a solution Haley considers to be overkill. "Maybe [I'm] naive, but it seems to me [the same functions] could have been delivered on something simpler." Right after America West purchased the system, he adds, AT&T came out with a 386-based management product.

In terms of customer support, MCI garnered top scores in four out of seven categories because of its willingness to go the extra mile. "We get fantastic service," says one MCI user. "One of the reasons we're with [MCI] is service—the added extras." This respondent cites installation, troubleshooting, and billing as

Best Technology

AT&T

Data Comm MAGAZINE USERS' CHOICE August 1992

AT&T made a clean sweep of the technology ratings in this year's DATA COMM User Survey, with winning scores in all seven switched and seven private-line technology categories. The carrier's highest marks came for circuit uptime, circuit availability, circuit reliability, and circuit transmission quality.

Best Service

MCI

Data Comm MAGAZINE USERS' CHOICE August 1992

For the second year in a row, respondents rated MCI as best service provider. The company garnered top honors in four out of seven service categories, including timeliness of installation, assistance in planning, billing accuracy and format, and information about new tariffs and services. Its biggest margin of victory came in installation timeliness.

Users Rate Long-Distance Carriers

areas where MCI shines.

MCI installs circuits within an afternoon, according to this user. And when he calls the company with problems, he is able to speak with a service representative immediately. In fact, this user says MCI calls *him* whenever there's an outage anywhere in the country that might affect his service.

MCI also garnered higher scores than any other vendor in the billing accuracy and format category. Another MCI user explains why: "I get [billing information] every which way I want it." This user says bills come both on magnetic tape and on paper, both in a format customized to suit her company's needs. MCI says it offers this service to its large customers at no extra charge.

Because of MCI's strong customer support, this user says she won't be switching carriers anytime soon. "Occasionally I bring AT&T in here and let them give me the whole spiel. But when it comes right down to it, I'm going to pay more, and they're not as flexible."

WilTel users also raved about the

What About WilTel?

Watch out, Big Three—WilTel is shaping up as a serious competitor in the long-distance data communications arena. Although Williams Telecommunications Group (Tulsa, Okla.) didn't garner enough responses to be included in the main table in this year's survey, those who did respond gave the company the highest ratings ever recorded for circuit quality (see table).

"We've never had a problem," says Clayton Lewis, network services manager for the city of Tulsa. The city chose WilTel for its data services over AT&T, MCI, and Sprint because the company met what Lewis describes as stringent bid requirements at the lowest cost.

Another respondent, who requested anonymity, says his data requires the precision clocking WilTel uses. "[Our] data is very bit-sensitive," he says. WilTel's cesium clock is more accurate than those of other carriers, says this respondent, who found MCI's clock was "slipping all over creation."

WilTel is a relatively recent entrant into the data services market. The company completed its coast-to-coast fiber network in 1987, and in 1990 signed a mutual-use pact with MCI covering that carrier's fiber network.

In March 1991 WilTel made headlines with WilPak, the first public frame relay service (see "Public Frame Relay Gets Rolling," December 1991). The company also offers T3, fractional T3, T1, fractional T1, and 56-kbit/s private-line services and WilBand, a switched T1/T3 service for videoconferencing and batch file-transfer applications. WilTel added switched long-distance services in February 1992.

In all, 37 respondents said they used WilTel for switched or dedicated services. This sample is relatively small (compared with AT&T's 644, MCI's 252, and Sprint's 161 respondents), making it difficult to perform a statistically valid comparison. Of those 37 respondents, just seven used WilTel for switched services, making the vendor's ratings in that category statistically invalid. For these reasons, DATA COMM chose to exclude WilTel from the main table. —*J.T.J.*

WilTel's Impressive Scores

	Switched services	Private-line services	Combined scores
Number of respondents	7	30	37
TECHNOLOGY			
User-controlled network monitoring and management	Not applicable	4.00	4.00
Circuit quality: Transmission	4.33	4.43	4.42
Circuit quality: Network synchronization	4.33	4.43	4.41
Circuit quality: Bit-error rate	4.17	4.30	4.28
Circuit uptime per month	4.17	4.30	4.28
Call setup speed	4.17	Not applicable	4.17
Circuit availability	4.33	4.40	4.39
Circuit reliability	4.33	4.33	4.33
MEAN SCORE (Technology)	4.26	4.34	4.33
CUSTOMER SUPPORT			
Assistance in planning	4.17	3.59	3.69
Timeliness of installation	4.00	3.69	3.74
Billing accuracy and format	4.00	3.72	3.76
Troubleshooting skill	3.67	3.54	3.56
Timeliness of repairs	3.50	3.57	3.56
Providing information about new services and tariff changes	3.67	3.17	3.26
Maintenance	3.67	3.70	3.69
MEAN SCORE (Customer Support)	3.83	3.56	3.60
MEAN SCORE (Overall)	4.05	3.95	3.97

Responses were scored on the following scale:
5 = Excellent; 4 = Very good; 3 = Good; 2 = Fair; 1 = Poor

Users Rate Long-Distance Carriers

Survey Methodology

The 1992 DATA COMM User Survey on long-distance carriers comprised a two-page questionnaire and incentive mailed on May 4, 1992, to a random sample of 2,500 subscribers. Results are based on valid responses from 624 readers, some of whom use more than one carrier. In addition, some readers also use a mix of switched and dedicated services. All respondents affiliated with carriers were eliminated from the survey.

Four carriers—AT&T, MCI Communications Corp. (Washington, D.C.), Sprint Corp. (Kansas City, Mo.), and Williams Telecommunications Group (WilTel, Tulsa, Okla.)—were listed by name on the survey, with "write-in" space left for other carriers. No write-in carriers received enough responses to be tabulated individually; their ratings are listed in an "Other carriers" column.

Respondents were asked to indicate which of the carriers they used for switched and private-line services, and to indicate which of the carriers were most important in their networks. They were then asked to rate the two most important switched carriers and the two most important private-line carriers in seven technology and seven service categories using the following scale: 5 = Excellent; 4 = Very Good; 3 = Good; 2 = Fair; and 1 = Poor. Readers also were asked to select a ratio that described how they weighted the relative importance of technology and service.

Scores were calculated by summing each carrier's ratings in each category and dividing by the number of responses. Overall mean scores in technology and service were calculated as weighted averages; the ratings in each category were weighted by the number of respondents in that category. Combined switched and private-line scores for each carrier also were calculated using weighted averages. Because respondents indicated that technology and service were equally important, overall scores for each carrier were calculated by averaging the carrier's technology and service scores.

carrier's service. "They've been really responsive," says Clayton Lewis, network services manager for the city of Tulsa, Okla. "They resolve problems, then call us back to make sure we're pleased. Then they'll call us again, just to be sure we haven't had any recurrences."

SOUPING UP SERVICES

Paradoxically, the one thing most carriers don't seem to do often enough is use the telephone. Sprint, in particular, could probably benefit from listening to users. The company did relatively poorly in the service categories, and posted the lowest overall score in the survey. This dissatisfaction was reflected in comments by users, all of whom requested anonymity.

When outages do occur or other service is needed, one user says it takes a lot of phone calls to get any action from the company. "They've been extremely responsive—when I've been a real pain in the neck," he says.

Sprint's technological prowess does help to offset some service complaints. Because the Sprint network is so large and diverse, even a cable cut doesn't stop service for long, since there's nearly always an alternate route with spare capacity.

One factor in Sprint's poor service showing could be the virtual monopoly the company enjoys with certain customers under FTS2000, the U.S. government contract awarded to Sprint and AT&T in 1988. The $25 billion contract covers switched and dedicated voice, video, and data services at a variety of data rates. Previously, the government network was handled entirely by AT&T. Under FTS2000, AT&T provides 60 percent of the network's services and Sprint provides 40 percent. Agencies governed by the contract don't have the option of changing carriers.

Although the survey didn't ask specifically about FTS2000, several respondents indicated that they used the carriers they did because of the contract. Most of these expressed mixed feelings about their carriers: they tended to be pleased with the technology, but less than thrilled by the service.

One Sprint user says his organization switched from AT&T to Sprint because of FTS2000. Given a choice at the time, this respondent says he wouldn't have switched over to Sprint.

Another FTS2000 respondent has complaints about both Sprint and AT&T, particularly about their service. If he had his way, he says, he'd use MCI, because of the service the company provides (this respondent still maintains two MCI leased lines in spite of the FTS2000 contract). "When I do have trouble, [MCI is] Johnny-on-the-spot about getting the circuits back up," he says.

Users are virtually unanimous in demanding more information from their carriers regarding changes in tariffs or new services. In fact, all carriers scored lower in this category than in any other.

"We find out about new services before the [AT&T] account team," says America West's Haley. Typically, Haley says, he finds out about new services through trade magazines or user groups. When he calls the company for more information, the standard reply is, "We'll check on that."

"New product announcements never filter down to the sales staff," says one Sprint user. "Things change so quickly. I need to be 100 percent informed, not find out after the fact." ■

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Mr. ISTOOK. But if I understand correctly, you would like further questions to be deferred?

Mr. HOYER. If you could. If you could stay for that, that would be useful, because I would like to hear the primary testimony, then Mr. Visclosky will be chairing. All right, thank you very much. Mr. Visclosky, did you have any questions?

Mr. VISCLOSKY. No, sir, I am fine.

THURSDAY, APRIL 22, 1993.

FTS 2000

WITNESSES

RICHARD J. LOMBARDI, VICE PRESIDENT, AT&T BUSINESS COMMUNICATIONS SERVICES, FEDERAL SYSTEM

CHRISTOPHER ROONEY, PRESIDENT, GOVERNMENT SYSTEMS DIVISION, SPRINT COMMUNICATIONS CORPORATION

INTRODUCTION

Mr. HOYER. At this time I would like to call Mr. Lombardi, Mr. Richard Lombardi of AT&T and Mr. Christopher Rooney of Sprint to testify. Mr. Lombardi, we are glad to have you here; Mr. Rooney, glad to have you here. At this point in time, I will recognize Mr. Lombardi.

Your statement will be included in full in the record and as I indicated to you, I intend to read all of this testimony as I would hope most of the Committee Members would as well. Mr. Lombardi.

SUMMARY STATEMENT OF MR. LOMBARDI

Mr. LOMBARDI. Thank you, Mr. Chairman. I appreciate that. Mr. Lightfoot, thank you for having us here today. My name for the record is Richard J. Lombardi. I am the Vice President for Federal Systems for AT&T, based here in Washington and fundamentally dedicated to serving the Federal Government.

I appreciate the opportunity to discuss FTS 2000, which I believe has proven to be an extraordinary success for the Federal Government. It is important at the outset I think to remember that FTS 2000 provides a superbly functioning network. It is not simply a collection of services or aging equipment. FTS 2000 means top-flight quality, it means state-of-the-art technology and real sizable savings for the taxpayer as both chairmen have testified to this morning.

By the end of fiscal year 1992, the first four years of FTS 2000 will have saved more than $500 million. These initial savings will be repeated in each of the two following trimesters of the contract, and, in addition, as a result of the first of two price recompetitions, it will now save an additional $450 million over the remaining six years of the contract.

Price recompetition underneath this contract is a unique aspect of this 10-year contract. I know of no other contract like this in the Federal Government. It is a great opportunity for the government to continue to save money over time.

Since this subcommittee reviewed the program last year, three major events have clarified the importance of the mandatory use policy and the value of the program. The first was the schedule price recompetition between AT&T and Sprint that I just mentioned. Secondly, GSA, AT&T and Sprint have agreed upon new contractual commitments, publicly available price caps or PAP-CAPs, as they are sometimes called, that will ensure, I repeat, ensure that the FTS 2000 prices will remain below comparable commercial prices throughout the term of the program.

And thirdly, President Clinton has recommended that the statutory requirements for mandatory use be continued.

Now, the actual results of this program have been reviewed by GSA, by GAO, by the Government Operations Committee, by interagency management counsel and by several outside experts commissioned by the government, and in summary, they have said that FTS 2000 is cost effective, the price recompetition worked, prices are at or below the best available commercial prices, the program is an unqualified success and something that is good for the taxpayers.

Mr. Chairman, my written statement contains a lot of background about this program and I won't go into a lot of that background here in the interest of time. There are just two points I would like to make. I think they are very important.

First, it must be remembered that FTS 2000 actually replaced an earlier system. That old system consisted of a patchwork of circuits and switches that were procured, managed and maintained directly by the government. A vulcanized and antiquated system, the old FTS 2000 in the end satisfied nobody.

The result was that by 1984 there were some 220 separate networks in operation or planned. They didn't interoperate. It actually increased the cost of government. Fixing this situation was what FTS 2000 was all about.

Second, there were those who lost FTS 2000 competition or who chose not to compete who have continually called for change. However, what is essential to understand about the history of FTS 2000 is that it is the change, it is different than what used to be. It is substantially different. It is a major government reform. It is a reform initiative that was co-authored by Congress and the executive branch. It was born of bipartisan cooperation and careful planning and conducted in full and open competition. It only came into being after all the parties were heard, all the parties. Congress, the entire vendor community, and the all important user agencies.

Legislative mandatory use was a necessity from the outset for the bidders to make the sizable investment that they made to create FTS 2000 and to provide the extraordinary features and the market competing prices. It was the congressional requirement, tied to funding, that Federal agencies actually used these services that made that happen.

It is clear, the record shows that FTS 2000 has achieved far more than anyone expected or projected and it holds the promise of contributing far more to the efficiency and productivity and economy of the operations of the United States Government. However, the fulfillment of this promise is truly dependent on all parties to this

program living up to the commitments they made over the last five years.

We believe Congress should renew mandatory use in the Treasury, Postal Service bill because the program has been a success because of it, clearly. The old system failed without it. GSA had the capability to do then what they have now, but the whole system failed without mandatory use.

Mandatory use has become an integral part of the government's commitment to this program. Continuation of pricing at or better than—clearly better than commercial prices are dependent upon the volumes that mandatory use will bring to this program, and I think it insures the most cost effective procurement of telecommunications services for the government.

So in summary, the stability and future of FTS 2000 is very much tied to the continuation of statutory mandatory use, and thus to the decisions of the Appropriations Committee. We believe the time has come not only for continuation of mandatory use law, but for long-term provisions that would stabilize this program for the remaining life of these contracts.

This vendor, I know Sprint as well, is trying to get more technology on this program. That is a fundamental requirement of the program and we are doing a great deal of it since its inception but we have been blocked by some of the people who have testified previously here today in terms of adding the technology to this contract.

It has been very difficult to do. We believe the facts in this case demonstrate the value of the statute of mandatory use to date and the wisdom of this subcommittee in allowing that to happen. I would be pleased to answer any questions you might have either now or later.

[The statement of Mr. Lombardi follows:]

WRITTEN STATEMENT OF
RICHARD J. LOMBARDI, VICE PRESIDENT, AT&T
BUSINESS COMMUNICATIONS SERVICES - FEDERAL SYSTEMS

BEFORE THE SUBCOMMITTEE ON TREASURY, POSTAL SERVICE,
AND GENERAL GOVERNMENT OF THE COMMITTEE ON APPROPRIATIONS
UNITED STATES HOUSE OF REPRESENTATIVES

APRIL 22, 1993

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Mr. Chairman, Congressman Lightfoot, Members of the Subcommittee, AT&T appreciates the opportunity to discuss FTS2000, which has proven to be such an extraordinary success for the Federal Government. FTS2000 provides a superbly functioning network -- not simply a collection of services or aging equipment. FTS2000 means top-flight quality, state-of-the-art technology, and real, sizeable savings for the taxpayer.

By the end of Fiscal Year 1992, the first four years of FTS2000 had saved more than $500 million. These initial savings will be repeated in each of the two remaining trimesters of the contract, and, in addition, as a result of the first of two price recompetitions between AT&T and Sprint (the two carriers that won the FTS2000 competition), FTS2000 will now save an additional $450 million over the remaining 6 years of the contracts, even if no further price reductions occur.[1]

FTS2000 can accomplish even more: it can enable a new Congress and a new Administration to bring new and innovative methods to managing the Federal government, to make it more responsive and accessible to its citizens, and to reduce the growth of the federal deficit.

Much has been said in recent times about the criticality of ensuring that the nation and the United States Government have the information infrastructure it needs to take full advantage of the improvements in productivity and operating economies of ongoing advancements in communications technology and services. The good news is that with FTS2000 the future is here today. As such, FTS2000 is not just a good deal for the Government user and the American taxpayer, it is a national asset that holds great promise. And I'm pleased to report that FTS2000 is delivering on that promise.

Nevertheless, Federal procurement is governed by laws and regulations and they have much to do with programmatic success or failure. To succeed in the years ahead, FTS2000 must continue to be governed by statutory mandatory use, which has been one of the underlying principles structuring and supporting the creation and implementation of this program from the outset. With definitive continuation of that statutory provision, I can tell you today that, in terms of the achievements of FTS2000, the best is yet to come. The policy question before this Committee is really about the future of this program. How you make your judgment on mandatory use will determine that future.

Since this Subcommittee reviewed the FTS2000 program last year, three major events have made even clearer the importance of the mandatory use policy and the value of the program:

1. **The scheduled 1992 price recompetition (PR/SR) between AT&T and Sprint has further reduced FTS2000 prices and significantly increased Federal savings;**

2. **GSA, AT&T and Sprint have agreed upon new contractual commitments -- Publicly Available Price Caps (PAPCAPs) -- that will ensure that FTS2000 prices will remain below comparable commercial prices throughout the term of the program; and**

3. **President Clinton has Recommended that the Statutory Requirement for Mandatory Use be Continued.**

Just as significant as these events, however, has been the recent publication of four reports and studies regarding the status of the program. The actual results in FTS2000 have been reviewed by GSA, GAO, an Interagency Management Committee and several outside experts commissioned by the Government. The results of these four studies is a consistent report card demonstrating extraordinary success:

1) The General Accounting Office reported that the additional savings from PR/SR were real, substantial and below the lowest known commercial prices.

2) The GSA Report to Congress on the Cost Effectiveness of the FTS2000 Program determined that the FTS2000 program was the most cost effective means of acquiring these services. This Report was based on two component studies:

   - A Federal Interagency Management Council (IMC) concluded that the PR/SR prices were below the

lowest commercial prices; and

- A private sector price analysis, commissioned by the U.S. Government, also showed FTS2000 to be cost-effective.

3) A second Interagency Management Review of GSA's stewardship of FTS2000 concluded that the "program is an unqualified success."

4) A House Government Operations Committee Report, based on four years of oversight and investigation, concluded that FTS2000 is a "success story in Federal procurement, and has been and will continue to be a 'good deal' for the taxpayers and for Federal employees."

As a result of all of these events, reports, studies and recommendations, we believe that it is now clear that FTS2000 has lived up to the high hopes that Congress and the Executive Branch had for it, and, indeed, has exceeded all expectations and predictions. For our part, AT&T has more than lived up to the requirements and commitments of the contract we won. FTS2000 was established as the result of a rigorous, full and open competition, and has achieved results far superior to those originally projected[2]. As such, we believe that the annual debate over whether the Federal Government should live up to its part of the bargain should finally be resolved. The benefits to be derived from FTS2000 in the future are so significant that we

believe it is critically important for Congress to unambiguously reaffirm the statutory mandatory use policy so that we can all get on with the program which the Government fairly competed and lawfully awarded.

Background

It must be remembered that FTS2000 actually replaced an earlier Federal communications system which had initially been created in the early 1960s. However, the old FTS system, at its end, consisted of a patchwork of circuits and switches procured, managed and maintained by GSA. A balkanized and antiquated system, the old FTS, in the end, satisfied no one. Some 17 communications service providers participated in the old FTS system, and GSA attempted with decreasing success to administer and coordinate these vendors and manage the networks and associated equipment. It became increasingly difficult over time to manage this patchwork in a manner that could provide up-to-date services at anywhere close to meeting either commercial prices or customer needs. Furthermore, regulatory, legal and management requirements caused dramatic and unanticipated price increases. Agencies that believed they could obtain better service or lower costs or both, began to withdraw from the system despite GSA's long-standing Brooks Act authority, thereby causing even greater costs to be incurred by those remaining on the old system. The result was that by 1984, there were some 220 separate networks in operation or planned, and that number did

not include the defense or intelligence agencies or the Department of State.

In order to replace the old FTS, Federal agencies collectively began what became 6 years of comprehensive inter-agency planning. The effort included extensive congressional oversight and significant input and comment from the entire vendor community.

The original FTS2000 procurement plan was for a single vendor, winner-take-all, 10 year contract. The fact is that that approach was vigorously supported by those in the vendor community who are now so critical of FTS2000 and who today try to assert that the program isn't sufficiently "multi-vendor" in its construct. Back in 1987, despite their objections, FTS2000 was divided into a multi-vendor procurement in a policy agreement between Congress and the Executive Branch known as the "Golden Rules" - 21 founding principles to guide the design of the ultimate RFP. These 21 points included a two-vendor approach with periodic recompetition, a price control provision (PAPCAP), and mandatory use. All potential bidders were advised and briefed on these changes. More importantly, all who bid not only understood these principles, but by the submission of their bids formally accepted and approved them.

What is essential to understand about FTS2000 is that <u>it is the change</u>. FTS2000 is a major Government reform initiative co-authored by Congress and the Executive Branch, borne of bi-partisan cooperation and careful planning. <u>FTS2000 only came</u>

into being after all parties were heard -- Congress, the entire vendor community, and the all-important user agencies of the Federal Government. FTS2000 is the synthesis of the best of these inputs; FTS2000 was borne in the sunlight of public debate and established through the rigors of full, fair and open competition.

The final Request for Proposals for FTS2000, for which 3 competitive bids were received, had been significantly changed as a result of congressional review, oversight and enactment of a mandatory use law.

On December 7, 1988, AT&T won the 60% share of the FTS2000 program because it offered the lowest prices and the best technical and management solution of the 3 bidders. Along with the other FTS2000 contractor, U.S. Sprint -- the winner for the remaining 40% -- AT&T provides six broad categories of continually upgraded telecommunications service to its FTS2000 customers.

AT&T's FTS2000 network provides unique features to its Federal government customers, some of which have no commercial counterpart, but which were viewed as essential by the Federal agencies and Congress. For example, certain National Security Emergency Preparedness (NSEP) features are built into AT&T's FTS2000 network. These NSEP features include, for example, limitations on the amount of traffic that any single switch can handle. This approach is designed to protect the U.S. Government against system overloads and to assure high reliable service

during national emergencies. These NSEP features even functioned reliably throughout the San Francisco earthquake and Hurricane Andrew.

In seeking to carefully analyze the prices of FTS2000 versus commercial comparators, GSA and Federal agencies recently identified 19 separate Unique Government Requirements (UGRs) that are mandatory in FTS2000 but are not generally provided in commercial contracts. The clarity of this analysis was essential for developing a thorough understanding of FTS2000; previously, these UGRs had complicated comparisons between FTS2000 and commercial contracts.

As I noted before, it has been said by critics that FTS2000 should be a multi-vendor program. Well, I am happy to report to you that it already is, and is a significant success. AT&T is proud of its major commitment to sub-contracting with small and small disadvantaged businesses under FTS2000, a program recognized as a model for subcontracting success. AT&T has had more than 300 such firms involved in FTS2000 to date, and the strength of this subcontracting program has received outstanding ratings from government reviewers. In fact, on April 27, AT&T will be receiving an SBA award for its subcontracting results. We are very proud of that impending award and of the commitment and the work that achieved it. And let me assure, our commitment continues.

Another key objective of FTS2000 was to provide up-to-date technology over the ten-year term of the contracts. The old FTS

system, had become antiquated and costly. Critical to FTS2000's success, has been its "technology refreshment" contract provision. The continued technology updating in the FTS2000 program has provided FTS2000 customers with advanced technology and features, and will continue to do so. The design construct for FTS2000 was to avoid technical obsolesence, and as one of the winning vendors, we at AT&T are contractually committed to assuring that requirement.

Today, FTS2000 provides these services to over 1.5 million Federal employees at over 5,000 service delivery points, provides ready access to Federal services for the entire American population, and carries approximately 3 billion minutes of use each year. AT&T's Network A surpasses the contract requirements for quality and reliability, and does so at prices that no other network can match. FTS2000 has kept all of its commitments, and then some.

Legislative mandatory use was necessary from the outset for the bidders to make the enormous investments and provide both extraordinary features and market-beating prices. Even though the commitment by the Government that Federal agencies would use the FTS2000 services was included in the RFP, it was the Congressional requirement, tied to funding, that Federal agencies actually use these services that produced a sufficient number of bidders to have a full and open competition. Indeed, the Report of the House Government Operations Committee[3] explains how this provision was originally proposed by a vendor deeply concerned

about their ability to commit to the procurement competition in the absence of a mandatory use statute. Congress considered the merits of their arguments, found that GAO had expressed a similar concern about assurance of agency usage in a 1987 study on FTS2000 planning, and decided to establish the mandatory use provision in law. That was a sound decision then and remains so.

By its enactment of a statutory requirement for agencies to use FTS2000 -- known as the mandatory use requirement -- this Subcommittee and Congress changed the program, the procurement, the commitments, the expectations of the bidders and the competition itself. Mandatory use legislation has been perhaps the critical ingredient in making FTS2000 a success. It is the glue that holds FTS2000 together. It is only because of the required use of FTS2000 services that the vendors can afford to provide the largest-volume agency and the smallest with the same nation-wide technology and rock-bottom prices that are only available through economies of scale.

For the same reasons that Congress found it was essential to make this commitment before the bidding, it is equally essential now. We were pleased to see that President Clinton agrees and has recommended the continuation of mandatory use in the Treasury, Postal Service and General Government Appropriations Act for 1994. Indeed, given the extraordinary success achieved, one would wonder why there would be doubt about the continuation of this law. We believe that rather than disrupting something that has worked so well, the program should instead be stabilized

with a longer term provision to resolve the policy debates in a definitive way.

We believe this because today the results of FTS2000 are no longer a matter of faith or hope or conjecture. Today there is demonstrable, verified success. This success is documented in a record of events and achievements with published results compiled and independently analyzed over the past year. That record is summarized in the pages that follow:

I. THE PRICE REDETERMINATION\SERVICE REALLOCATION RECOMPETITION

Periodic recompetition between the winning prime contractors was an essential element of the agreed structure of the FTS2000 procurement, and was convened in and accepted by all vendors who chose to participate in the FTS2000 procurement when it was conducted. In the first recompetition between the two vendors who won the FTS2000 procurement, 40% of the estimated revenue shares of each vendor for the remaining life of the contract was at risk. Although we competed vigorously to actually increase our share of the FTS2000 revenues, we were pleased to have again won the 60% share; as a consequence of the projected revenues for the period prior to the next recompetition, we were assigned business from the Department of Veteran's Affairs, in addition to our previous agency assignments. This new assignment was essential to preserve the

integrity of the 60/40 balance in the program, which was one of the original 21 principles.

II. THE PUBLICLY AVAILABLE PRICE CAP MECHANISM

The FTS2000 RFP included a provision that GSA designed to ensure that FTS2000 prices would remain competitive with commercial prices. In our comments on the draft RFP, we observed that this Publicly Available Price Cap (PAPCAP) provision as then designed was akward and could be difficult for the Government to apply. Indeed, it proved to be difficult to use and at the end of the first trimester of the contract GSA, AT&T and Sprint negotiated a new methodology by which PAPCAP would be applied and measured.

Upon the successful conclusion of PR/SR, GSA, AT&T and Sprint were able to implement a new provision for the FTS2000 PAPCAP. This new provision ensures that the government will continue to receive prices below the best prices available for comparable commercial services. This new PAPCAP methodology will be applied on a quarterly basis, will be for all FTS2000 services, and while complex in its calculation, it will allow comparisons of FTS2000 prices with comparable commercial prices. In its recent Report, GAO reviewed these new price control agreements and determined that "if implemented as planned, they should ensure that FTS2000 prices remain competitive with commercial prices".

As with all pricing matters under the FTS2000 program, the high volume of traffic created by legislative Mandatory Use ensures that Federal agencies actually use these competitively procured

services to meet their needs. That commitment was essential for AT&T to agree to these significant new price protection provisions for the Government. The continued use of these PAPCAP provisions is predicated on the continued existence of Mandatory Use. Simply put, the success of FTS2000 is directly attributable to the Mandatory Use law and it is what will ensure the success for the future.

III. THE GAO REPORT ON THE PR/SR

In October, 1992, the Senate Governmental Affairs Committee asked GAO to review GSA's conduct of PR/SR. The Report concluded that:

> "GSA followed a well-defined, appropriate process for conducting the PR/SR. It consistently followed its source selection plan, which we previously reviewed and found acceptable. In addition, GSA used appropriate methodologies to develop data used to perform its analysis during the PR/SR process. As a result, GSA made a reasonable decision in maintaining the current 60/40 percentage revenue split between the two FTS2000 vendors.
>
> "Through this decision, GSA made a major impact on FTS2000 prices. PR/SR reduced prices by about $450 million over the final 6 years of the contracts. Further, these new prices were generally below the lowest known commercial rates at the time of PR/SR. In addition, to ensure that FTS2000 prices remain competitive with commercial prices, GSA recently negotiated with both vendors new PAPCAPs covering all services. These agreements appear reasonable and should ensure that the government pays competitive rates during the second term of the contracts."

IV. THE GSA COST EFFECTIVENESS REPORT ON FTS2000

In order to meet the test set forth in the FY93 Treasury, Postal Service and General Government Appropriations Act, GSA,

working through a committee of the FTS2000 Interagency Management Council headed by Dennis Groh of the Department of Defense, commissioned the price comparison component of the study to be performed by Snavely, King & Associates, Inc. (SK&A) and the Institute for Defense Analyses (IDA). **"The GSA Report to Congress on the Cost Effectiveness of the FTS2000 Program"** dated February 1993, was based in part on the results of this analysis of the prices charged for FTS2000 compare to commercial rates. The GSA Report was also based on the extensive data gathered in the 1992 program price recompetition.

The GSA Report concluded that --

> "Based on the price comparisons from the study and FTS2000 traffic projections for fiscal year 1993, GSA found that FTS2000 prices, in aggregate, are at least as good as the best equivalent commercial prices without considering the value of unique Government requirements. When the value of unique Government requirements (as defined in the study) is factored in, FTS2000 is significantly . . . than commercial equivalent offerings."

Furthermore, GSA determined that the new PAPCAP provisions, which will take effect this month, will assure that FTS2000 prices are always below the best prices for equivalent commercial services.

GSA concluded that --

> "FTS2000 meets the Government's telecommunications needs, including unique Government requirements at lower prices when compared to prices for equivalent commercial services. GSA has concluded that the FTS2000 procurement is producing prices that allow the Government to satisfy its requirements for such procurement in the most cost effective manner."

It is significant that GAO concurs in this judgment, as they

V. THE FTS2000 INTER AGENCY MANAGEMENT REVIEW CONCERNING GSA MANAGEMENT OF THE FTS2000 PROGRAM

Last year, the FTS2000 Interagency Management Council (IMC) also undertook a review of the management of the program by GSA at what the IMC called a "critical juncture" in the program's history.

This review sought to identify ways to make GSA's oversight of the program more efficient and cost-effective and to address concerns of agency customers about the appropriateness of GSA's overhead charges.

The IMC concluded that the "program is an unqualified success." It found that GSA's staff was effective in executing their missions, and found that customers were "near unanimous" in their praise for the telecommunications services delivered, described as "high quality ... at extremely competitive prices."

VI. THE REVIEW OF THE FTS2000 PROGRAM BY THE HOUSE GOVERNMENT OPERATIONS COMMITTEE

On October 29, 1992, the Hosue Government Operations Committee published a 235 page Report summarizing the original development of and first four years of operation and performance of the FTS2000 program. In summary of its exhausing five-year review, the Committee concluded that --

> "FTS2000 has been a success story in Federal procurement, and has been and will continue to be a 'good deal' for the taxpayers and for Federal employees."

The Report noted that even with the Government-wide nature of FTS2000, there is still room of and opportunity for others in the

totality of the Government's annual telecommunications expenditures. The Committee noted:

> "A central argument raised by those opposing FTS2000 - chiefly vendors that lost or did not compete in the FTS2000 competition - has been that 'choice in the competitive marketplace' should be the Government's strategy for meeting its telecommunications requirements. The Government Operations committee agrees. But the FTS2000 contracts were awarded after just such a competition . . . Additionally, approximately 83% (3.1 billion) of the Government's telecommunications requirements is not covered by FTS2000 and is subject to competition from all responsible vendors."

The House Report recommended that the mandatory use statute should be continued in full force.

The FTS2000 Price Advantage is Even Greater Than That Found in the GSA Cost Effectiveness Report

The FTS2000 Interagency Management Council Committee, Snavely, King & Associates, the Institute for Defense Analysis, the General Services Administration and the General Accounting Office all found that the prices produced under FTS2000 were lower than comparable commercial prices. However, the FTS2000 price advantage is actually even greater than those reviews and analyses indicate, as those reports and studies themselves acknowledge:

1. The commercial services to which FTS2000 prices are compared are not a network. There is no commercial contract that provides ubiquitous, nation-wide service without a specified quantity of service, like FTS2000.[4]

2. The cost of the commercial services did not include the significant costs and impracticality to the Government and to the

telecommunications industry of continual Federal procurement actions in order to obtain the best prices.[5]

3. The commercial prices do not include the unique costs of doing business with the Government, including the unexpected costs and disruption of legal protests, frivolous and otherwise, by losing vendors, and the extensive added costs of administering Federal contracts and compliance with the unique Federal Acquisition Regulations and a plethora of Federal procurement laws which shape the contracting environment.[6]

4. The commercial prices do not include the costs which the Government would incur to ensure compatibility, trouble-shooting and survivability when services are provided by a continuously changing plethora of carriers.

5. No single commercial contract guarantees the lowest prices for the individual services under FTS2000. The lowest commercial prices came from several different vendors, no one of which offered the lowest prices for all services.[7]

6. And, finally, the commercial prices assume that the services and prices available on limited tariffs will be available at the same prices on demand, anywhere, nation-wide.[8] That is not a valid assumption. It is not clear that these prices would be as favorable under FTS2000 conditions.

The savings calculated to date for FTS2000 are probably only the tip of the iceberg; comprehensive assessment of all cost factors, we believe, would substantially increase the Government-wide savings estimated beyond the billions already totaled.

Conclusion

Mr. Chairman, the record shows that FTS2000 has achieved far more than anyone ever expected or projected.

- FTS2000 was originally expected by GAO and GSA to achieve some $100 million in savings through 1992.[9] The actual result was more than five times what was predicted -- totaling $542 million through the end of Fiscal Year 1992. Most importantly, these savings are just the beginning.
- FTS2000 was designed to bring order out of what was chaos, and for technological excellence to replace what had become balkanized and antiquated. All of these goals are being met and exceeded, and in fact, AT&T's FTS2000 surpasses the technical and performance requirements of the program.
- FTS2000 was intended to meet a diverse range of needs for agencies, from Defense to Agriculture and from NASA to the Social Security Administration. Not only are the government-wide needs of the agencies being met, but communication between the American people and their government has been significantly enhanced.

As the House Government Operations Committee recently concluded, FTS2000 is "a success story, both in savings to the taxpayers and services for Federal employees."

We believe the best is yet to come. The future of advanced communications technologies and services, contemplated and demanded by the FTS2000 competitive procurement, is rapidly upon us. FTS2000 holds the promise of contributing far more to the efficiency, productivity and economy of the operations of the United States Government than we have yet seen. However, the fulfillment of this promise is truly dependent on all parties to this program living up to the commitments made over the last five years.

Mr. Chairman, we believe Congress should renew legislation requiring Federal agencies to continue to use FTS2000 services because:

1. The program has been a success expressly because of Mandatory Use. We know it works. History shows that the old FTS system failed without it. Why risk repeating that earlier, unsatisfactory experience?

2. Because the contracts provide for continuing competition and require downward adjustment of prices, they contain rigorous mechanisms which will continue to provide the most cost-effective prices;

3. Because the statutory Mandatory Use requirement has existed since before the award of the contracts, and because it has been an essential basis for the judicial and GSA enforcement of the

required use of the contracts, the statutory requirement has become an integral part of the Government's commitment, and the integrity of this program; the provision was the understood basis of the procurement competition and of the award of the contracts;

4. The continuation of program prices that are lower than commercial prices is dependent upon assured, high volume use of the services under Mandatory Use, as noted by GAO in their March 4, 1993 Report;

5. In the past, GSA has been unsuccessful in ensuring common usage of ADP and telecommunication services under the Brooks Act. Without a statutory basis, their regulations requiring agencies to use FTS2000 can be changed completely with a stroke of a pen, and without judicial review, regulations alone would be inadequate assurance that GSA would be able to keep agencies on these networks.

6. A presidential Executive Order might be useful, but it too can be waived, its continuation is not subject to review, and, generally, breaches of such Orders do not allow interested parties to enforce its provisions. It too would be an inadequate substitute for the statute that has been in effect throughout the life of the program to date.

7. Undoubtedly, cheaper prices for some services might be obtained from time to time between high-volume locations, especially if providers don't have to offer more expensive services to more distant or remote locations. In FTS2000, the low cost routes offsets the higher cost routes and <u>still</u> produces the lowest

overall network prices. "Cherry-picking" the low-cost service is precluded by mandatory use and also backs-up the Government's commitments made to the bidders before they bid. It remains essential.

8. While individual agencies are undoubtedly quite interested in saving taxpayer funds, especially today, the fact is that the required use of FS2000 contracts under the law allows GSA and the Congress to ensure that telecommunication services are being procured in the most cost-effective manner, unlike the situation that existed with the many networks and widely varying prices prior to FS2000.

In sum, the stability and future of FTS2000 is very much tied to the continuation of statutory mandatory use, and thus to the decisions of the Appropriations Committee. A long-term resolution of Mandatory Use as a provision of law is necessary to maximize the benefits of the program to the United States Government. Moreover, enactment now of a long-term provision is warranted by the unanimous endorsement of the success of the program in the four Government studies that are now before this Committee for its considered evaluation.

We remain committed to the fulfillment of the promises FS2000 has made to Federal agencies and to the American public.

We are pleased that President Clinton recommended the continuation of mandatory use in the Treasury, Postal Service and General Government Appropriations Act for 1994 and we believe this extraordinary successful program deserves this Committee's unwavering continued support as well.

ENDNOTES

1. FTS2000: GSA's Price Redetermination Yields a Reasonable Decision and Lower Prices, (the GAO Report on PR/SR), GAO/IMTEC-93-22, March 1993, page 2.

2. Information Management: Status of GSA's FTS2000 Procurement, GAO/IMTEC-87-42, August 1987, page 5.

3. FTS2000: Management Reforms and Intensive Congressional Oversight Ensures Savings of $500 Million for the Taxpayers, (the House Government Operations Report) House Report 102-1056, October 29, 1992, pages 5, 35.

4. The GSA Report to Congress on the Cost Effectivess of the FTS2000 Program, (the GSA Cost Effectiveness Report) February 1993, page 3.

5. Snavely, King & Associates, Inc. Study "FTS2000: Cost Effectiveness Comparison Acquisition Price Analysis", (the SK&A Analysis), January 1993, page 3.

6. Id.

7. See, for example, SK&A Analysis, pages ES-3, 9, 18 and 30.

8. The GSA Cost Effectiveness Report, page 3; SK&A Analysis, pages 8, 18.

9. Information Management: Status of GSA's FTS2000 Procurement, GAO/IMTEC-87-42, August 1987, page 5.

Mr. HOYER. Thank you, Mr. Lombardi. Would you just expand upon your assertion that the application of new technology has been blocked?

Mr. LOMBARDI. One of the fundamental requirements of this contract from its early inception, from its crafting before it was officially a RFP and then part of the contract has been a service enhancement capability. It is a requirement as part of the contract.

We have effectively, over the last couple of years in this program, added a number of new services and new capabilities. At just about every juncture as that attempt has been made to add these services and features and technology capability, we have met with protests. We have met with other vendors who are not part of this program coming and saying, it is inappropriate to add this technology to this contract.

And so we have been stymied in our ability to add the type of technology that we would like to.

Mr. HOYER. What is the underlying rationale for the assertion that it is inappropriate?

Mr. LOMBARDI. It has clearly not been supported in any substantive way, because as we have gone through the protest process, those protests have been fundamentally upheld with regard to adding the technologies to the contract. It is taking much longer than it should to go through the process of protest and appeal to get the contract——

Mr. HOYER. I understand the process, but what is the underlying premise? Why would somebody assert that you could not add additional technology in effecting the objectives of the contract at the price you agreed upon and with the result promised?

Mr. LOMBARDI. The point I am trying to make is I am not too sure I would be willing to articulate a rationale that GSBCA and GAO have denied those protesters. I don't think there is a basis of rationale. There is interpretation of wording in contracts. There is interpretation, but those interpretations have all been dismissed.

Mr. HOYER. Mr. Lightfoot.

Mr. LIGHTFOOT. You pretty well answered the question I was going to ask. In your statement, on the mandatory use obviously, we can understand where you are on the issue I think from your statement. I would just like to follow on the Chairman's line on being blocked, and pardon my lack of understanding on how the contract was written, but is there specific wording within the contract that does not allow you to do this or is it just the protest process that you are talking about?

Mr. LOMBARDI. It is in the contract. There are specific words in the contract that talk about service enhancements, talk about the desire for technology refreshment in the contract over its period of time. What the blockage is, as we go to do that and the contracts are modified, the contract modification issue—the contract modification becomes a subject for protest and the protest then delays the advancement of the technology on the contract.

Mr. LIGHTFOOT. It is the modification of the contract where the protest lies?

Mr. LOMBARDI. Right.

Mr. HOYER. Would you yield on that?

Mr. LIGHTFOOT. Sure.

Mr. HOYER. Does that include price modification?

Mr. LOMBARDI. Every time a modification is made to the contract, there has to be a new price associated with it.

Mr. HOYER. So the underlying premise presumably is, in effect, it was a lost leader bid?

Mr. LOMBARDI. No, I would not categorize any of the arguments I have seen the competitors give that they are lost leader bids. It is the fundamental principle of getting the technology on the contract that is being protested.

Mr. HOYER. I didn't mean to imply that they were, but I am trying to get at the rationale for this. For example, a contractor bids on a construction job, he or she bids low, the theory is that there are going to be add-ons as you move along and amendments to the contract. But that is not the premise here.

Mr. LIGHTFOOT. Good point, Mr. Chairman. I guess the only other thing I would ask along that line, with the level of technology that is in place today, how do you feel that it compares with what is available in the market and what we actually have?

Is there still a gap where we need to come up further or are we pretty much on stream with what is out there?

Mr. LOMBARDI. I would categorize it as we currently sit, we are pretty much on screen. The reason that we add the technology to the contract is by working with GSA and the end user agencies to help them identify their needs and utilize our knowledge in the industry to identify solutions for those needs that do represent new technology for the most part.

So it is the agencies coming to us. There are a couple pieces of technology like fast packet or frame relay that is in the relatively embryonic stage in the industry today and we are currently working with GSA to have that put on the FTS 2000 contract as well. If you went outside into the commercial marketplace, you wouldn't find an extensive market for that yet.

It is embryonic, it is growing, and the government will grow with it if we are successful in getting that technology on the FTS 2000 contract.

Mr. LIGHTFOOT. So is it fair to say that despite the protests, you are still up to speed?

Mr. LOMBARDI. Yes. It has taken us longer to get to where I think the agencies and we would like to be in terms of being able to able to satisfy the needs of government. I think it is safe to say that the technology is very current.

Mr. LIGHTFOOT. Okay, thank you. Thank you, Mr. Chairman.

PAPCAPS

Mr. HOYER. One last question, Mr. Lombardi. The assertion obviously of those who think that the mandatory language ought not to be included is that, in fact, the government is not getting the best price and if it were more competitive, it would get a better price.

In your statement, you reference that particularly as it relates to the assertion that although there is no analogous purchaser of such

magnitude as the Federal Government, that other large purchasers are getting a better commercial rate relatively speaking.

Obviously I presume the government is getting the lowest rate because it is such a large purchaser. How do you deal with that assertion?

Mr. LOMBARDI. Yes, absolutely, and I would like to reinforce one more time, the fact that we have this publicly available price cap mechanism in place, that GSA has crafted and negotiated with the two vendors, ourselves and Sprint, so that they are assured that the prices on FTS 2000 will always be below the best available commercial prices and that PAPCAP process is reviewed on a quarterly basis, so quarterly, an assessment is done with regard to being at or below the best available commercial prices.

Mr. HOYER. Let me pursue that. As I understand your competitors, their assertion is, of course, that is not a problem, and the reason it is not a problem is because the government is not analogous to any other purchaser, it is so much larger than the next second largest purchaser, that of course you are going to give rates lower than any commercially available.

But the point they make, I presume is that the rates ought to be substantially lower than they are because of the magnitude of the service. I don't know the correctness of that assertion, but as I understand it, that is the assertion, and therefore my gut reaction tells me, well, of course it is going to be lower than the next larger purchaser because the Federal Government is much larger than the next larger customer.

Mr. LOMBARDI. Probably a factor of at least two to one.

one.

Mr. HOYER. Who would be the next largest purchaser? Could you tell me? I am just interested. A State like California?

Mr. LOMBARDI. Probably not the State of California. Probably one of our larger commercial customers, potentially an IBM or GE. I am not—I am really not sure.

Mr. HOYER. I would be interested in getting that from some of your technical people, if they could give us a basis of comparison, and you might want to respond further to that question, because it seems to me, that is the nub of their assertion. It is not that the Federal Government is not getting the next to lowest price, but if it were twice as big as the next purchaser, my gut would tell me that the price should be some magnitude lower.

Mr. LOMBARDI. Just two points, and I think it is important, that if necessary, we share with you the details of the process of PAPCAP, but GSA took that into account. The driving process behind what GSA did with regard to establishing what level below the best available commercial prices were took that into account. Took that volume consideration into account very clearly. So that is part of the mechanism that now drives us as a vendor.

Secondly, the issue of prices and costs are not linear. It is not like you would expect a two to one difference if there was a two to one difference in volume. If when you start to approach asymtotically a price point where half of your cost in terms of moving your service are a function of providing access, which is a kind of a fixed cost in the process, then as you start to approach the need of that curve, your incremental difference in price relative to the volume,

it cannot be a factor, again, equal to a two to one. It is a complex equation.

But I believe GSA, I know, because they have negotiated with us, have laid that requirement on us in terms being better than the best commercial price.

Mr. HOYER. I would assume that. I don't want you to think that I am thinking because it is twice as large, it is half the price.

Mr. Rooney, we are pleased to have you here.

SUMMARY STATEMENT OF MR. ROONEY

Mr. ROONEY. Thank you, Mr. Chairman. I represent the Sprint Government Systems Division, and I am very pleased to be here today. Appreciate the opportunity. We view FTS 2000 as a tremendously successful program for the government and for Sprint. We spent a lot of time today talking about the savings, and I think both chairmen and my colleagues from AT&T have documented the savings somewhere between $1 billion and $3 billion to be realized and those are growing daily as we add additional traffic to the system.

I think for a minute I would like to focus, if I could, Mr. Chairman, on the network itself and the customers we serve because those customers are also the constituents of this committee. This program serves all 135 agencies of the government in 50 States and the territories, millions of government employees from Customs stations down on the border to fire stations in Montana. So it is ubiquitous across the States in the service we must provide under the contract.

In addition and often overlooked, we service tens of millions of taxpayers, of your constituents, principally in service like the IRS taxpayer service. Over the past three and a half months, as you can well imagine, tens of millions of taxpayers used the services of FTS 2000 to make inquiries concerning how to file their taxes, where to receive their forms, and then to follow up and find out where their returns are.

So the system not only serves the internal Federal Government but really the constituents of the Congress, and further the veterans' benefits programs where we provide the telecommunications service, to the Social Security Administration, we provide all the inquiry service for that administration. I am pleased to report to the Chairman and to the committee that that service has been rated in terms of customer satisfaction at 98.5 percent over the past four years, a phenomenal record in our industry and I think for the government.

Further, in terms of technology refreshment——

Mr. HOYER. You were very charitable on that. I think I know your real thoughts.

Mr. ROONEY. No, sir. I think it is a standard to be upheld and I think it is something—the contract requires, however, I think that is one of the key ingredients we haven't discussed today, the contract is very stringent in terms of the service delivery requirement. It requires the same level of service at that fire station, the same technology availability of the Customs station as the White House, as in the President's office.

So there is no providing well for the President and the Drug Enforcement Agency in Florida doesn't have the same service. So that is a key ingredient of the program. In terms of technology refreshment, you may have been left with the impression today through some of the testimony that no technology has been added.

In reality, many, many technology modifications have been added, and those aren't simply for the sake of technology, Mr. Chairman. A number of modifications are made, fringes, one in the area of video conferencing for the IRS. The IRS is trying to train their staff nationwide to improve tax collection. They are doing that through a technology enhancement with wide vamp video teleconferencing that is provided under this contract.

In addition, there are more than 25 additional technology enhancements under way at this time. So technology has been enhanced, productivity is increased through this technology enhancement. It also is a fundamental part of the contract.

Certainly last but not least, underpinning all of those things and those advantages and services, Mr. Chairman, Mr. Lightfoot, is a guarantee that the vendors and GSA have put in place that we will deliver those services at the lowest—below, below the lowest possible commercial price in the United States.

The index that was spoken of earlier is in place in that PAPCAP methodology. The Tariff 12 spoken of earlier for AT&T's large customers are considered in that methodology. Those systems are in place and I would really urge the committee to take a look at that PAPCAP methodology because in fact it is doing a very good job.

We are going through the first iteration right now. The government will realize additional savings the 1st of July from both Sprint and AT&T under that agreement. Further, we are going to have another recompetition between the two vendors in two years, a little over two years, that will lead to additional price reductions. So there is an ongoing methodology of price reductions.

In addition, we have entered into voluntary price reductions when pricing has become slightly off. So those things are under way and are key elements of the success. As both chairmen indicated, Mr. Hoyer, the single most important underpinning of this program is legislative mandatory use.

Several points. Historically, looking back into the old system before the current FTS 2000, the same authority existed in GSA for mandatory use of programs and systems, but what happened, because there was no legislation in place, because the force of budgeting was not in place, multiple networks evolved. There were over 200 networks serving the agencies of the government. So there was no ubiquitous service. Service degenerated over time. Cost climbed over time, and although you might get a lower cost on the actual direct out-of-pocket expense, what had happened over time is the procurement staffs will grow, technical staffs in agencies across the government will grow, and accountability will decline because you will no longer have a single agency in the person of the GSA to hold accountable for the delivery of this 98.5 percent customer satisfaction level. It will be across many agencies.

Last but certainly not least, sir, the credibility of the program is very dependent on the support of your committee for mandatory use. The procurement policy of the United States, if we followed

many of the suggestions that have been levied here this morning, would become anarchy.

Everyone had an opportunity to bid this contract. Our competitors certainly bid against AT&T and our services. Our competitors supported mandatory use. We all supported mandatory use, and now everyone who did not win the contract is saying mandatory use is not the right way.

Mandatory use is proven to be the right way, the savings are in place, the service to the government and taxpayers are in place. FTS 2000 is a successful program and I respectfully urge this committee and the members to vote for permanent mandatory use.

Thank you, sir.

Mr. HOYER. Thank you, Mr. Rooney.

[The statement of Mr. Rooney follows:]

WRITTEN STATEMENT OF
CHRISTOPHER ROONEY
PRESIDENT, GOVERNMENT SYSTEMS DIVISION
SPRINT COMMUNICATIONS CORP

HEARING ON FTS2000
BEFORE THE
CONGRESS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES
ROOM H163

COMMITTEE ON APPROPRIATIONS
TREASURY, POSTAL SERVICE AND GENERAL GOVERNMENT
SUBCOMMITTEE
APRIL 22, 1993

INTRODUCTION

Mr. Chairman, Congressman Lightfoot, members of the Committee, Sprint appreciates the opportunity to appear before the subcommittee today to discuss FTS2000, a critically important contract to Sprint and the Federal government.

As you know FTS2000 has received a considerable amount of scrutiny over the past four years, perhaps more than any program of its kind. Over the the last two years, the program and the vendors have been examined by both House and Senate authorizing committees, the telecom industry, the OMB and the GAO. Today I come

before this subcommittee to report on the status of the program from Sprint's perspective and to give you some indications of the future of this extremely successful program.

Success can be measured in many ways. It is my intention to demonstrate today that the FTS2000 program has more than fulfilled the original vision as defined by Congressman Jack Brooks in 1988, and has become a program model for future procurements. Sprint regularly hosts visiting teams representing a variety of foreign governments. For example, the UK is currently consolidating their government-wide requirements into a comprehensive procurement not unlike FTS2000. It gives me great personal pride to know that the program we are discussing today is being used as a model for these procurements.

Most importantly, I want to address the end-user perspective. It must not be overlooked that even during the most contentious periods of this contract the GSA published FTS2000 satisfaction levels of 98.5%. For those who have publicly challenged FTS2000, let us never forget that the users have always been solidly behind the program.

At the completion of this hearing I believe each member of this subcommittee will conclude that no other government program of any kind or size has demonstrated the success you will hear today. I will therefore request that this subcommittee continue its support for the FTS2000 mandatory use policy which is vital to the program's success.

FTS2000 A PROGRAM FOR CHANGE

The architects of FTS2000 have publicly described the program as a "program for change". To fully appreciate the accuracy of that description I would like to take a moment to review the state of government telecommunications seven years ago just prior to release of the FTS2000 Request for Proposal (RFP)[1]. It is only from that perspective we can truly appreciate how far we have come.

Between the time when Chairman Brooks made the first call on FTS in 1963 and release of the FTS2000 RFP in 1987, the old FTS system fell into a state of both technological and financial obsolescence. The old FTS system offered the government only analog voice and low speed data service. It did not have the capability to offer the government the benefits of a rapidly changing technology or the financial benefits

which, at the same time, were being offered to the commercial marketplace through deregulation. As a result, by 1986 government agency use of the old FTS system was the exception rather than the rule. It was expensive, antiquated, and its service quality did not meet commercial standards. Nonetheless, the government was required to meet its telecommunications needs. What grew around the FTS system was a patchwork quilt of alternate communication networks as each agency struck out on its own in an attempt to meet its requirements. Unfortunately, that resulted in a dilution of the government's buying power and redundancy of acquisition effort. Additionally, this patchwork quilt of multi-vendor, multi-priced networks provided service of varying quality and capabilities without the ability to interoperate. Neither the government nor the taxpayer was being well served.

Chairman Brooks and the other architects of the FTS2000 program envisioned a program which could continuously provide state-of-the-art services, and pass along the continuous financial benefits afforded the commercial marketplace through deregulation. These qualities had to be incorporated within a contractual vehicle able to serve the needs of the widest possible government user group. In this manner, the government could aggregate its buying

power, and avoid the waste and technological disadvantage inherent in acquiring and running multiple networks. In 1987, Chairman Brooks recommended to the GSA that they split the program into a dual award contract. This enhanced the programs' ability to achieve its goals as it introduced the technical advantages of network redundancy and the business advantages of competition internal to the program. It offered the possibility of two "price redeterminations" between the two successful bidders at years four and seven of the ten year contract term. This insured the price competitiveness of the contract. At years four and seven the incumbents would have substantial portions of their networks at risk in a price and quality competition. In order for the program to achieve the objectives of its architects required an unusual level of cooperation and commitment between government and the participants. The vendor community was required to commit to the technical and financial risks inherent in the request for proposal. The procuring agency, the GSA, had to commit to focus on their government customer. Congress committed its support to mandate government-wide use of the new telecommunications system. These commitments ultimately formed the fundamental basis of the agreement between the contracting parties. If FTS2000

was to fulfill its promise to be a program for change, all the participants had to live up to their commitments.

WHERE WE STAND TODAY AT YEAR FIVE

It is useful to recall that the GAO in a 1987 report estimated FTS2000 savings of $100 million from the date of contract award through 1992[2]. The actual program savings through FY92 was $542 million. In its FTS2000 price redetermination press statement, the GSA announced additional program savings over the next six years of $450 million from the 1992 price level. The GSA estimates that the total projected savings over the life of the contract exceed three billion dollars when compared with old FTS. The GSA further stated in the same press release that the overall price levels for FTS2000 are "approximately 11% below the best commercial rates available today." These projected savings do not reflect further price reductions resulting from the on-going quarterly FTS2000 Pap/Cap process designed to maintain the governments advantage over commercial market price adjustments. In addition, a second price redetermination is scheduled for 1995.

Beyond the GSA public assessments, there have now been two separate and independent studies that fully

support the conclusions of the GSA. In a study requested by this committee, Snavely and King concluded that FTS2000 switched voice services, which represent over 80% of the program revenue, are "unambiguously lower than all commercial services"[3]. Further, the GAO released a report in February that concludes the GSA "achieved prices below known commercial rates and negotiated a mechanism that should ensure that prices remain competitive."[4]

Clearly the FTS2000 program has passed the public test. The price reductions, described above, validate Congressman Brooks' foresight in splitting the contract between two vendors. Price reductions of up to 50% since contract award indisputably reflect the competition built into the contract.

I spoke earlier of the end-user perspective which has so often been overlooked in the past. Beyond the significant cost efficiencies of FTS2000, this program has infused advanced technology into the government at a rate that is unprecedented. Last week most Americans completed the annual ritual of filing their federal income taxes. The IRS tax season has a special meaning for Sprint. Not only does Sprint support all IRS 800 service but we have worked with the IRS on the development of compressed and wideband

video transmission service applications. These FTS2000 services have increased IRS productivity, reduced travel, and improved communications among its national headquarters, regions, districts and service centers. The IRS uses the 42-site wideband videoconferencing service to provide consistent uniform training for employees. FTS2000 has become an efficiency tool that allows the IRS and all of the other FTS2000 agencies to use technology effectively. Productivity increases and tax accuracy results in higher and more effective tax collection for the government. As the IRS video application expands, Sprint intends to grow this and other FTS2000 technologies with the agencies and the applications. Sprint has a firm commitment to advanced telecom technology and will work to give the agencies the resources they will need in the future.

TO CONTINUE OUR SUCCESS WE NEED YOUR CONTINUING SUPPORT

In October of 1988, two months before award, Congress, mindful of its commitment to make FTS2000 a success, enacted P.L. 100-440. This appropriations Act contained language which mandated the use of FTS2000 by all executive agencies. The only exception to the use of FTS2000 services was for "unique" agency applications, which could not be served by the

services offered under FTS2000. The agency must demonstrate that this exception does not adversely impact cost effectiveness of FTS2000. The express purpose of the statute was to buttress the Administrator of the GSA's pre-existing authority under the Brooks Act to mandate the use of FTS2000. Essentially, it was this Committee's recognition that mandatory use was critical to the ultimate success of the program. Congress has reinforced the commitment by reenacting identical language in its appropriations legislation for FY '90 (P.L.101-136), FY '91 (P.L.102-141),and FY '92 (P.L. 102-141).

For fiscal year 1993, HR.5488 essentially included the same requirement conditioned only on the program's cost effectiveness. The conference committee reinserted mandatory use in the final bill that was ultimately enacted.

The conference report states:

> "The conferees have agreed to continue that language carried in this Act for several years mandating procurement of any product or service that is subject to the provisions of P.L.89-306 under conditions set forth herein."

Mr. Chairman, as you have heard today, FTS2000 has met all the conditions and passed all the tests. Likewise, the vendors and GSA have met their commitments. I ask for Congress to continue to meet its commitment to this program and reaffirm its support of mandatory use, by enacting language in the FY1994 Appropriations Act. This language should prohibit the expenditure of funds appropriated by the 1994 Appropriations Act and or any other Act for telecommunications services which can otherwise be served by FTS2000. In this manner, the Committee can for the long term, guarantee; the maximization of the government's buying power (even for the smallest agency), the efficiencies of a streamlined acquisition process, the avoidance of duplicate procurement efforts, and significantly reduced overall costs. FTS2000 simply is unmatched in terms of quality, service and affordability.

All vendors who participated in the original FTS2000 competition knew and understood the commitments addressed above. The bidders that participated in the original competition recognized and supported mandatory use as a critical element to the success of the program. None of those original participants, whether they were successful bidder or not, can stand before you today and credibly deny this. They can do

so now only as sour grapes for their own pecuniary benefit. These "wannabe" vendors can not be permitted to "cherry pick" a few profitable services or agencies from the Program. That concept is contrary to the fundamental basis of the original bargain between the contracting parties and the intent of the Brooks Act.

CONCLUSION

The FTS2000 program has moved into a new phase. Vendor prices have been certified as being below the lowest possible commercial rates for comparable services. Additionally the vendors once again have surpassed their commitments to the program by consenting to a common price validation methodology, referred to as PAP/Cap, which guarantees that the contract prices will remain below the lowest possible commercial prices.

It is now appropriate to move forward with the program and related policies such as mandatory use and its enforcement. Major programs are now coming up for renewal that previously were not on FTS2000. We ask that mandatory use be made permanent so that FTS2000 benefits can be more broadly expanded throughout government through the vigorous enforcement of FTS2000 mandatory use.

This is the completion of my prepared testimony. I will be happy to respond to further questions from the committee members.

ENDNOTES

1. FTS2000 Request for Proposal (RFP) GSA/IRMS-KET-JW-87-02, December 1986, SF33.

2. Information Management: Status of GSA's FTS2000 Procurement, GAO/IMTEC-87-42, August 1987, Page 5.

3. Snavely, King and Associates, Inc. - Study "FTS2000: Cost Effectiveness Comparison Acquisition Price Analysis", January 1993, Page ES-2.

4. The GSA Report to Congress on the Cost Effectiveness of the FTS2000 Program, February 1993. Page 4.

5. Richard Austin, Administrator of GSA, (Letter responding to The Honorable Robert J. Dole), January 1993, Page 3.

6. Brad Bass, "DoD Factions Battle Over FTS vs. DDN" Federal Computer Week, September 21, 1992, Page 1.

MANDATORY USE REQUEST

Mr. HOYER. In what way were these words, mandatory use, requested? Was that in written representations to GSA?

Mr. ROONEY. I was not on the program at that time, but the three vendors who were bidding, AT&T, Sprint, and the team for which MCI participated, went to Chairman Brooks and requested that mandatory use be inserted from a legislative perspective.

The understanding I have, sir, is that that was requested because they were concerned at the time, and I understand this was led by MCI, that the significant investment that was required to bid the contract and the significant investment that was required to undertake the contract, required a significant level of use and they were concerned that without mandatory use, that level of use would not be in place and those investments they had to make to bid and if they ultimately won, to participate, would be very, very significant.

Mr. HOYER. Although I am not going to ask the question now, I would invite MCI and Mr. Crane or your people to respond to that, because that might be a pretty salient point for you and for us. How about we hear now from GSA?

Mr. LIGHTFOOT. Yes.

Mr. HOYER. I apologize for not going around the table. I presume all of you will agree that if we have further questions that we think of as we look at the material, that you would be pleased to respond.

Mr. ROONEY. Absolutely.

Mr. HOYER. Thank you very much. Appreciate all of you being here.

[CLERKS NOTE.—The following additional information was provided for the record by Sprint:]

FREQUENTLY ASKED FTS2000 QUESTIONS
APRIL 22, 1993

1) *Why should a contract administration issue like Mandatory Use be made a part of the law ? Are there not ample provisions in the Brooks Act and Federal regulations to assure agency use ?*

The plain truth is that if the Appropriations Committee had not supported FTS2000 Mandatory Use, the FTS2000 program would not exist today. Three bidding teams, lead by MCI expressed grave concerns about expending additional funds preparing for the two-vendor award without assurances from the Appropriations Committee that executive agencies would be required to use the contract. MCI was particularly concerned that the GSA require executive agencies and the DOD to use FTS2000. For this reason the three vendors and Congressman Brooks agreed to request that the Appropriations Committee enact Mandatory Use language. The Appropriations Committee has played as integral a role as any other party in the success of FTS2000.

2) *The GSA has reported to the Hill that FTS2000 prices are certified as being the lowest in the industry. The latest GAO report concludes that FTS2000 prices are competitive and the program is back on track. Why is Mandatory Use needed at this point ? Has not the policy served its purpose ?*

To answer your question directly, Mandatory Use is even more important now that the prices are clearly certified as the lowest in the industry. The GSA estimates that only 53% of the agency traffic is on FTS2000. This means that over half of the eligible workload is NOT on FTS2000. Can any of these contract prices be similarly certified as the lowest or even cost-effective ? EVERY MINUTE OF TRAFFIC NOT ON FTS2000 IS WASTING THE TAXPAYERS MONEY. Without continued Appropriations Committee support, GSA would have no chance to get this traffic onto the program. In fact without Appropriations support and therefore the continuation of Mandatory Use language, the entire FTS2000 project would be in jeopardy.

The issue is that a deal is a deal. This was clearly negotiated as a given before the contract was awarded and despite MCI attempts to rewrite history they were one of the strongest advocates of this policy until they lost the bid.

3) *The world has gone through major changes in technology since the FTS2000 contract was bid. Some are saying that since FTS2000 offers no virtual networks or telecommunications on demand, the program is an outdated private line service. Why should Mandatory Use be used as a means of forcing agency to use these outmoded services ?*

Sprint will continue to remain committed to provide the agencies the technology they need under the contract. The GSA requires the two vendors to stay current with the technology and to continue to meet the needs of the agencies. As FTS2000 moves into the next phase, it is important for everyone to examine the motivations of those parties that continue to detract from the success of FTS2000.

4) *Doesn't FTS2000 Mandatory Use give AT&T and Sprint a guarantee in perpetuity to provide every new technology that is introduced into the industry ? This strikes me as not being in the spirit of competition and could possible cause the government to pay more.*

It is important to review the 21 "Golden Rules" as we approach issues of this nature. These are the standards that we were negotiated between Congressman Jack Brooks and Terry Golden then Administrator of the GSA prior to the award of FTS2000. All FTS2000 bidders agreed to these principles. It is always useful to consult these guidelines when such a fundamental issue as technology is addressed. The mission was made very clear. FTS2000 would not be the victim, as was the old FTS, of the swift technological

changes endemic to this industry. Because of this rapidly changing environment, technology refreshment clauses have become standard features in government contracts. Agencies must use this feature to assure that long-term contracts such as FTS2000 stay technologically current and continue to meet agency needs.

5) *Many in your industry feel that FTS2000 is anti-competitive since it guarantees essentially all civilian agency business to AT&T and Sprint. Several companies have proposed that a small share, 10 or 20 %, of the government's intercity traffic be opened to competition. This strikes me as being in the best interest of the government. Any comments ?*

There are many reasons that this is a bogus argument perpetrated by the wanabees. The bottom line is that every qulaified company had a chance to compete for this contract in 1988. It was conducted using full and open competition and has received overwhelming support and praise from Congress, the press and the executive agencies.

If Congress is drawn into revising major procurements such as FTS2000, it is slippery slope that will overwhelm the Hill.

6) *In your statement you referenced GSA data that concludes that only 53% of agency traffic is on FTS2000. Where is the other 47% ? What reasons can you indicate which would explain why over half of the users are not on FTS2000 ? Are you implying that agencies are in violation of the law ?*

The best person to respond to this question is perhaps the GSA. As you know the Brooks Act grants them the authority to review all agency delegation of procurement authority (DPA).

7) *Industry price competition continues and as we have seen in the past can dramatically change the competitive landscape. Why do you*

believe that the price methodology mentioned in your testimony will assure that the federal government will get the best prices ?

The FTS2000 PAP/Cap provision is unique in government procurement. It guarantees that the user agencies will always get the best prices available in the market place throughout the 10 year contract. Sprint and AT&T have worked for some time with the GSA to finalize a common methodology. Every 120 days the GSA and MITRE review with each vendor their current FTS2000 prices in conjunction with the latest developments in commercial prices. There is even more reason now to believe that FTS2000 prices will remain the lowest in the industry.

THURSDAY, APRIL 22, 1993.

GENERAL SERVICES ADMINISTRATION

WITNESSES

DONALD E. SCOTT, ASSOCIATE ADMINISTRATOR, OFFICE OF FTS 2000
WILLIAM P. CUNNANE, DEPUTY ASSOCIATE ADMINISTRATOR, OFFICE OF FTS 2000

INTRODUCTION OF GSA

Mr. HOYER. I am going to ask GSA to come forward. I apologize for not being able to be here for the entire hearing. Appearing for GSA is Donald Scott, the Associate Administrator of the FTS 2000 office, and William Cunnane, who is the Deputy Associate Administrator of the FTS 2000 office, and Mr. Scott, please proceed.

Mr. SCOTT. I will depart from my prepared statement.

Mr. HOYER. Your prepared statement will be included in full in the record.

SUMMARY STATEMENT OF MR. SCOTT

Mr. SCOTT. Thank you and I will try to comment on issues that I saw were highlights here this morning and try to leave a few minutes for questions for you, sir. I appreciate the opportunity to meet with you.

There are a couple points I want to make from my prepared testimony as to why mandatory use is of benefit to the program. It provides the benefits of economies of scale to the smallest as well as the largest. There are lots of small agencies around the government.

It becomes not only very difficult for them to acquire services, but if they go out on their own, they won't get the benefits of the economies of scale that we all have in the government as a whole through FTS 2000.

It streamlines the acquisition and implementation of telecommunication services for the government. If we don't do that, we end up with huge amounts of staff across the government performing the acquisition and management functions. The procurement process is not a simple matter today and we are going to incur very large costs with trying to implement telecommunications services in a fragmented approach.

And following on to that, the type of skills we need to do these things are critical, they are technical skills and procurement skills. They are critical in government, they are scarce as it is. It behooves us to leverage those as best we can.

Inter-operation among agencies is a great big thing these days.

Interoperability across agencies becomes a very, very difficult task if it is permitted to go fragmented. And last but not least mandatory use reduces the risks of these vendors when they were proposing, and it has been said two or three times before, all the vendors insisted that in order to invest—some spent as much as $100 million to put these proposals together, they needed some assurance for the marketplace to go forward with.

I will just make a couple of comments that came from the discussion this morning. And I will use your terms, Mr. Chairman. You were talking about the nub of the argument and where that came from. I will point out to you, and the issue that you were getting to was about economies of scale and what happens with that. We had a competition. We had a competition among three vendors. Other vendors did not choose to enter the competition. We had a fair and open competition.

AT&T and Sprint were the winners in that competition. We let the competitive process decide, and we entered into 10-year contracts with these vendors. It is written into the contracts that these are mandatory services. So the government made a commitment to that and I would submit that we ought to continue to maintain that commitment, a commitment that all the vendors in the competition asked for.

Now, just a couple other points that I think might help in clarification. With FTS 2000, we are not trying to be out at the leading edge of technology. We are trying to offer services most commonly used by the agencies, those that are available commercially, at a good price. That is our objective. We don't try to do everything for every agency.

It has been alleged a time or two this morning that we inhibited agencies from innovating. If we don't offer the services on FTS 2000, we permit the agencies to go on their own to obtain the services with a proviso that if at some future time the service becomes available on FTS 2000, then they will be obligated to take the service whenever their contract runs out or it otherwise becomes cost effective for the Government. We don't try to offer every service and we don't hinder the agencies from innovating.

On enhancements, and the issue that was discussed up here was what is the basis for the protest. The basis for the protest is the vendors are contending that the enhancements are beyond the scope of the contract. A lot of people spent a lot of time thinking about how these contracts ought to be constructed, realizing that technology would change over the 10 years and the contracts ought to be permitted to be enhanced as new services become available and are required by the Government. We think it is proper, but that is the basis. They allege that it is not within scope.

I think I will leave the remainder of the time for you to ask questions.

[The statement of Mr. Scott follows:]

DONALD E. SCOTT

ASSOCIATE ADMINISTRATOR

FTS2000

GENERAL SERVICES ADMINISTRATION

PRESENT POSITION

Serves as the Senior Manager and Advisor to the General Services Administration (GSA) Administrator for all matters pertaining to the Federal Telecommunications System 2000 (FTS2000) -- the Federal Government's long distance telecommunications network. Responsibilities include program management, policy development and oversight.

CAREER SUMMARY

Worked as telecommunications engineer and manager for over 30 years. Prior to coming to GSA, he held positions in the Department of Energy as Director of Information Management in the Office of Information Resources Management Policy, Plans, and Oversight and as Director of Telecommunications. He headed varied telecommunications engineering projects as a Department of Army civilian and previously served with the General Services Administration in both Central Office and Regional assignments; the last as the Region 7 Assistant Regional Administrator for Telecommunications, ADP and Records Management.

EDUCATION

Graduated in 1959 with a degree in Math/Physics. He also holds a Masters in Public Administration from the University of Virginia.

INTERESTS

Mr. Scott has long had interests in the acquisition and management of information technology resources and has spoken on these subjects to numerous government and industry groups. He is a long time member of the Armed Forces Communications and Electronics Association and the Independent Telephone Pioneers Association.

WILLIAM P. CUNNANE
DEPUTY ASSOCIATE ADMINISTRATOR
OFFICE OF NETWORK SERVICES
U.S. GENERAL SERVICES ADMINISTRATION

PRESENT POSITION

As the Deputy Associate Administrator for the Office of Network Services, Mr. Cunnane is responsible for the management of the Federal Telecommunications System 2000 (FTS2000). FTS2000 is the result of the largest civilian telecommunications procurement ever undertaken. The FTS2000 network provides over 1.5 million Federal Government users nationwide, low-cost, state-of-the-art, digital, intercity telecommunication services with the capability to integrate voice, data, and video communications. The FTS2000 has a 10-year maximum contract value of $25 billion dollars.

CAREER SUMMARY

Prior to assuming his current responsibilities, Mr. Cunnane served as the Telecommunications Director of the Office of Local Services, Information Resources Management Service. In this capacity he was responsible for the overall planning and operation of Local Service functions. His office established goals and program direction for the General Services Administration's (GSA's) 11 Regional Offices which provided consolidated telecommunications service to over 500,000 users.

In addition to his Central Office experience, Mr. Cunnane served for eight years in the National Capital Region (NCR), GSA, in a variety of progressively more responsible technical and managerial positions including Chief of the Engineering Section, Telecommunications Branch. He was subsequently selected as the Telecommunications Division Director. As the Director, he was involved in the day-to-day operation of the NCR's consolidated telecommunications service to over 150,000 users in the Washington area.

Prior to joining the Federal Government, Mr. Cunnane held positions in the private sector with Stromberg-Carlson Communications and Litton Industries. He also served with The White House Communications Agency for seven years.

AWARDS

Among other awards, Mr. Cunnane has received the Excellence in Administration Award (1992); the Presidential Rank Award of Meritorious Executive (1991); GSA's two highest honor awards, the Distinguished Service (1990) and Meritorious Service (1985) Awards; and two awards from the Interagency Committee on Information Resources Management, the Management/Administrative Excellence in Telecommunications Award (1986) and a Special Award for Extraordinary Achievement in the Management of Government Telecommunications (1992).

STATEMENT OF DONALD E. SCOTT
ASSOCIATE ADMINISTRATOR FOR FTS2000
BEFORE THE
SUBCOMMITTEE ON TREASURY, POSTAL SERVICE
AND GENERAL GOVERNMENT
COMMITTEE ON APPROPRIATIONS
HOUSE OF REPRESENTATIVES

April 22, 1993

Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to appear before you to discuss the Federal Telecommunications System 2000 program--better known as FTS2000. Accompanying me is William P. Cunnane, Deputy Associate Administrator for FTS2000. Today I would like to briefly discuss FTS2000's background as well as current program issues, including mandatory use and pricing of FTS2000 services, program management, and planning for the future.

FTS2000 is the program to provide long distance telecommunications services to Federal agencies. The program offers low-cost, state-of-the-art, integrated voice, data, and video telecommunications services to meet common-user requirements governmentwide. It replaced the old Federal Telecommunications System (FTS) which was primarily a voice system. Services are provided through two ten-year multi-billion dollar contracts which were competitively awarded to AT&T (60%) and Sprint (40%) in 1988. Awarded as a Brooks Act procurement, the contracts provide for the use of available off-the-shelf service to satisfy the government's requirements. In addition, the contracts contain provisions for service enhancements

allowing FTS2000 service offerings to remain current with the commercial marketplace. Price control mechanisms are built in to ensure that the contracts remain competitive throughout their life time.

The contracts were awarded for services rather than equipment, with GSA overseeing the provisioning of those services. Since transition from the old FTS, which was completed ahead of schedule in June 1990, the FTS2000 program has proven its worth to the government both in service and savings. Customer service requests are met on time, and in many cases, are met in half the time requested. In addition, customers reported an average of only five voice service trouble calls per 100,000 calls and have experienced virtually no network busy signals. Both contractors have received awards for their aggressiveness in implementing plans for subcontracting with small and small and disadvantaged business firms, making the FTS2000 program a model for subcontracting success.

The program has experienced significant growth since transition in 1990. First year voice traffic was fifty percent greater than projected in the original request for proposals, and grew by over 50 percent more in fiscal year 1992, from 2 billion minutes of usage in 1991 to more than 3 billion. Revenues to the two contractors currently total over $500 million per year collectively, of which, approximately 80 percent is derived from

that is offered to all locations and that meets government's specialized feature, customer support, network operations, and management and billing requirements.

In addition, FTS2000's contract provisions for Price Redetermination/Service Reallocation (PR/SR) in years four and seven ensure that FTS2000 prices remain competitive with the commercial marketplace. PR/SR allows internal competition between the two FTS2000 contractors, placing up to 40% of their estimated revenue share for the remaining life of the contract at risk. Fourth year PR/SR was completed in September 1992, resulting in projected savings of about $450 million over the remaining life of the contracts when compared with fiscal year 1992 FTS2000 prices. The rate reductions became effective in December 1992. In the March 4, 1993, GAO audit, FTS2000: GSA's Price Redetermination Yields a Reasonable Decision and Lower Prices, GAO determined that the PR/SR process had indeed reduced FTS2000 prices by about $450 million over the remaining life of the contracts and that FTS2000 prices were generally below the lowest commercial rates known at PR/SR.

Since PR/SR, GSA has negotiated Publicly Available Price Caps (PAPCaps) with both contractors for all FTS2000 services. The PAPCap agreements ensure that prices obtained during PR/SR continue to track the market and remain below the best comparable commercial rates. The March 1993 GAO audit on PR/SR also

reported that the PAPCap agreements are reasonable and should ensure that FTS2000 prices remain competitive with commercial prices.

The actual and potential business volume resulting from mandatory use significantly strengthened the government's bargaining posture in obtaining the best deals possible when implementing PR/SR and during PAPCap negotiations. Continuation of mandatory use ensures the greatest utilization of the program to obtain maximum cost savings and other efficiencies. This is particularly true if the government is to achieve the full benefits to be derived from the seventh year PR/SR, current PAPCap agreements, and contract provisions for service enhancements.

The government's policy mandating use of FTS2000 services has been provided for in the annual appropriations act since fiscal year 1989. That policy was modified in the fiscal year 1993 appropriations act to provide for mandatory use after March 1, 1993, only if GSA has reported that FTS2000 is cost effective for the government. To ensure objectivity in doing the report, GSA initiated an independent analysis to compare FTS2000 post price redetermination prices with comparable prices in the marketplace. The GSA Report to Congress on the Cost Effectiveness of the FTS2000 Program was presented on March 1st 1993. Based primarily on the results of the independent price

comparison study, GSA reported that FTS2000 prices, in aggregate, are at least as good as the best equivalent commercial prices without considering the value of unique government requirements. When the value of unique government requirements is factored in, FTS2000 is significantly less expensive than commercial equivalent offerings. We also reported that in a few instances (less than 10 percent of FTS2000 services) commercial prices were found to be less expensive, and that the PAPCap mechanism is expected to correct the pricing disparity.

The PAPCap mechanism is currently being implemented and is expected to drive all FTS2000 prices below the best prices for equivalent commercial services by June 1993. PAPCap is then expected to ensure that FTS2000 end-to-end service prices remain below the best prices for equivalent commercial services. Should PAPCap not yield the results expected, we will evaluate all available and cost effective alternatives for the government to meet its requirements and take appropriate action.

GSA has included customer agencies in the management of the FTS2000 program. The report language from Public Law 100-202 required GSA to form an FTS2000 Interagency Management Council (IMC) to provide advice on program management. Through the IMC, agency representatives have served as advisors, critics, and active participants in the FTS2000 acquisition and management processes, including full-time participation in the PR/SR process

and oversight of the FTS2000 cost comparison analysis.

In addition, an independent comprehensive management review of the program was initiated in fiscal year 1992. A subgroup of the IMC provided oversight for the contractor effort which was completed in November 1992. The contractor made recommendations for improvement to enhance program effectiveness in:

- Organizational structure;
- Contractor support, other than the FTS2000 contractors;
- Agency interaction and satisfaction; and
- Other issues including funds management, billing verification, organizational processes, and overhead.

Overall, the review found that the FTS2000 program is managed effectively and that agencies are satisfied with the service received. Several recommendations were made to update the program's management approach by eliminating unnecessary functions, simplifying the organizational structure, and strengthening customer orientation. We have developed an implementation plan and have begun implementing those review recommendations which are in the government's interest.

A number of initiatives are in progress to address the government's future requirements for common-user intercity telecommunications services. We have begun planning for seventh year PR/SR, planning for and implementing enhancements to existing FTS2000 service offerings, and planning for the provision of service after expiration of the current FTS2000 contracts in December 1998.

As was the case during fourth year price redetermination, the IMC will assist in the seventh year PR/SR process. In addition, a subgroup of that Council has been established to advise on ways to improve existing FTS2000 service offerings and to determine future requirements under the current contracts. IMC assistance is also being solicited to advise GSA in determining requirements for telecommunications services after December 1998 and service delivery options.

The FTS2000 program has been successful in meeting its commitment to deliver high quality and cost-effective telecommunications services at a cost which represents the best value for the Federal government and the public. Service is provided to more than 1.5 million Federal users with an average customer satisfaction rate of 98 percent. Prices were competitive at contract award and have decreased for all services since award. Additional decreases are expected as business volumes continue to increase and price control mechanisms,

provided for in the original contracts and negotiated since award, continue to be implemented. The key to program success has been the advice and support received from Congressional oversight committees, client agency participation in FTS2000 program management, and excellent service from the FTS2000 contractors at competitive prices. We will continue to seek the advice and assistance of all our supporters as well as our critics to ensure future success.

Mr. Chairman, this concludes my presentation. I would be pleased to respond to any questions or comments the Subcommittee might have.

1. MISSION AND RESOURCES

INFORMATION TECHNOLOGY FUND, OFFICE OF FTS2000
$(Thousands)

	FY 1992 Actual	FY 1993 Estimate	FY 1994 Estimate
Total Income	$533,653	$530,400	$499,164
Total Expense	533,155	568,282	506,315
Net Gain/(Loss)	(498)	(37,882)	(7,151)
Business Volume (Obligations)	554,316	589,383	507,684
EMPLOYMENT (FTE)			
Office of FTS2000	280	266	245
Program Support	64	44	42
Total	344	310	287

Long distance telecommunications services are provided through the Federal Telecommunications System 2000 (FTS2000) program which offers the Federal Government low-cost, state-of-the-art, integrated voice, data, and video telecommunications. The FTS2000 program is managed by the Office of FTS2000, established in 1991 as a separate organization reporting directly to the Administrator in response to Congressional concern over the management of the program. The mission of the Office of FTS2000 is to provide leadership, policy, program direction, and oversight to ensure the provision of a timely, high quality, innovative and cost effective Government-wide program for intercity telecommunications services. The operations of FTS2000 are financed through the Information Technology Fund on a reimbursable basis.

FTS2000 program services are provided to more than 1.5 million users through two multi-billion dollar ten-year contracts that were awarded to AT&T and Sprint in December 1988 to replace the 25 year-old FTS network. AT&T is assigned approximately 60 percent of the services, while Sprint is assigned the other approximate 40 percent. The contracts provide for "services" rather than equipment. GSA's role is to oversee and manage the provisioning of those services. The transition of voice service from the old FTS to FTS2000 was completed in June 1990.

The FTS2000 program has resulted in significant improvement in the quality and features of telecommunications services provided and in reduced cost to the Government. The technical capabilities of FTS2000 continue to be equal or superior to that of comparable commercial services while the costs continue to decline. Voice service usage increased 50 percent from two billion minutes of usage in Fiscal Year 1991 to over three billion minutes in Fiscal Year 1992. Non-voice services, such as dedicated transmission service, packet switched data service, and video teleconferencing, grew even faster, increasing in revenue share from 12 percent in Fiscal Year 1991 to over 20 percent in Fiscal Year 1992. It is anticipated that rapid growth in data and video services will continue indefinitely. Because of the substantial growth of FTS2000 over the old FTS and as a result of negotiated price reductions, estimated cost savings are $1.2 billion through Fiscal Year 1993 and are expected to exceed $3 billion over the life of the contracts. This savings demonstrates the economies of scale and the advantages of the new technology provided by FTS2000 services.

Several cost control initiatives were implemented or continued in Fiscal Year 1992 to ensure the lowest contract prices for FTS2000 services. First, substantial reductions in the price of FTS2000 services were negotiated with Sprint. These negotiations achieved parity in the pricing of service by the two FTS2000 contractors. Second, GSA completed negotiations and implemented Publicly Available Price Cap (FAP Cap) methodology for all FTS2000 services with both AT&T and Sprint ensuring for the first time that prices for all services remain at or below commercial rates. Third, the Price Redetermination/Service Reallocation process, one of the Government's contractual mechanisms for FTS2000 price control, was completed ahead of schedule and will result in significant price reductions of $450 million over the remaining contract period beginning in Fiscal Year 1993. Because of the aggressive competition between the two contractors, it was in the Government's best interest to maintain the existing 60/40 split. The price reductions, which became effective in December 1992, achieved overall FTS2000 price levels which, in aggregate,

I. MISSION AND RESOURCES (Continued)

were below the best commercial rates available. This PR/SR provision allows the Government to make major mid-course price adjustments on all FTS2000 services and features by having the two contractors compete for revenue share over the remainder of the contract. The PR/SR process will be conducted again during the seventh year of the contracts.

The FTS2000 program is committed to deliver high-quality and cost effective telecommunications services to the Government. We will continue to work with our client agencies to make service enhancements when it is cost effective to do so, thereby increasing their ability to accomplish their missions.

II. INITIATIVES AND ISSUES

ISSUE: Mandatory Use of FTS2000 Services and Reporting on the Cost Effectiveness of the FTS2000 Program.

DISCUSSION: Mandatory use of all FTS2000 services was included in the FTS2000 contracts just prior to contract award. In addition, since Fiscal Year 1989 the annual appropriations act for Treasury, Postal Service, and General Government has regularly provided for mandatory use of FTS2000 services by executive agencies. The mandatory use policy has been controversial due to concerns regarding FTS2000 prices vs. prices in the commercial marketplace. The Fiscal Year 1993 appropriations act was modified to: (a) direct the Administrator of General Services to report on the cost effectiveness of FTS2000 on or before March 1, 1993; and (b) provide for mandatory use of FTS2000 services only if the Administrator has reported that FTS2000 produces prices that allows the Government to satisfy its requirements in the most cost effective manner.

Soon after award of the FTS2000 contracts, prices for most services dropped dramatically in the marketplace. Consequently, there have been a number of claims that equivalent services could be found in the marketplace which could be acquired at a lower price than FTS2000. These claims need to be examined in light of certain factors associated with FTS2000. Although some prices offered outside the FTS2000 contracts for a specific location, agency, or service may appear to be economical, FTS2000 prices represent a package of services offered to all locations governmentwide.

In addition, there are a number of factors which differentiate FTS2000 from its nearest commercial equivalent. First, the Federal Government has specialized program, service, customer support, National Security Emergency Preparedness, network operations, and management and billing requirements. These requirements are either not provided for in comparable commercial services or are provided for separately under other tariffs or agreements. Any meaningful comparisons must place a value on the specialized features and services required under FTS2000 that are not generally provided for in the commercial marketplace.

An independent analysis comparing FTS2000 services with equivalent telecommunications services available in the commercial marketplace was completed in January 1993. In computing the FTS2000 and commercially equivalent service prices used for comparison, the effort addressed unique Government requirements and constraints imposed by law, executive order, or GSA policy. FTS2000 prices used for comparison were computed based on post-price redetermination contract prices which became effective December 7, 1992. Prices used for comparing commercially equivalent services were based on all available information. The study was performed by contractors with overall oversight by a subcommittee of the FTS2000 Interagency Management Council.

The GSA Report to Congress on the Cost Effectiveness of the FTS2000 Program was presented on March 1, 1993. Based primarily on the results of the independent price comparison study, GSA reported that FTS2000 prices, in aggregate, are at least as good as the best equivalent commercial prices without considering the value of unique government requirements. When the value of unique government requirements is factored in, FTS2000 is significantly less expensive than commercial equivalent offerings. GSA also reported that in a few instances (less than 10 percent of FTS2000 services) commercial prices were found to be less expensive, and that the Publicly Available Price Cap (PAP Cap) mechanism is expected to correct the pricing disparity.

ACTION REQUIRED: PAP Cap is currently being exercised and is expected to drive all FTS2000 prices below the best prices for equivalent commercial services by June 1993.

ISSUE: FTS2000 Management Review.

DISCUSSION: As the FTS2000 program had been in operation for three years, the GSA Administrator, Associate Administrator for FTS2000, and FTS2000 Interagency Management Council (IMC) determined it was appropriate to perform an independent comprehensive management review of the program.

The review was completed by a contractor with overall oversight by a subcommittee of the IMC. The contractors assessed the program and developed a report that made recommendations for improvement to enhance program effectiveness in organization structure, contractor support (other than the two FTS2000 vendors), agency interaction, and agency satisfaction. The report also addressed other issues including funds management, billing verification, organizational processes, and overhead.

Overall, the review found that the FTS2000 program is managed effectively and that agencies are satisfied with the service received. Several recommendations were made to update the program's management approach (e.g., elimination of unnecessary functions, strengthen customer orientation, simplify organizational structure, consolidation of functions).

ACTION REQUIRED: An implementation plan has been developed and we have begun to implement those recommendations deemed to be in the Government's interest.

II. INITIATIVES AND ISSUES (Continued)

ISSUE: Seventh Year Price Redetermination/Service Reallocation.

DISCUSSION: To ensure the Government continuously receives the best prices for FTS2000 services, a Price Redetermination/Service Reallocation (PR/SR) process was provided for at years four and seven of the contracts. The process involves the two contractors competing with each other for up to 40 percent of their revenue share for the remaining life of the contracts. The fourth year PR/SR process was completed in September 1992. The seventh year PR/SR process is in the initial planning phase.

ACTION REQUIRED: Plan and prepare for a recompetition effort to be completed by December 1995.

ISSUE: Planning Beyond FTS2000.

DISCUSSION: The FTS2000 contracts were competitively awarded in December 1988 as two ten-year contracts to provide long distance telecommunications service governmentwide. The Office of FTS2000 is planning for the provision of service after December 1998 as well as enhancements to existing FTS2000 service offerings.

The report language from Public Law 100-202 required that GSA form an FTS2000 Interagency Management Council (IMC) to provide advice and recommendations to the Administrator. A subcommittee of the IMC has been established to advise GSA on ways to improve existing FTS2000 service offerings and determine requirements for telecommunications services needed beyond December 1998. The IMC will also assist GSA in determining how follow-on FTS2000 services should be structured.

ACTION REQUIRED: The subcommittee has approved a charter for the future Communications Services Working Group to define the strategic and future direction of FTS2000.

Information Technology Fund

Selected Workload and Performance Measures

		1992 Actual	1993 Program
1.	FTS2000 Services		
	a. Number of FTS2000 calls (millions) 1/	739	750
	b. Number of FTS2000 call minutes (millions). 1/	3,232	3,300
	c. Percent of time contractor meets scheduled service order due date+++ (Goal 95 percent). . . .	98	95
	d. Number of switched voice service troubles reported per 100,000 calls+++ (Goal 10 or less). .	5	10
	e. Growth in voice service, dedicated transmission service, packet switched service, and video service usage+++ 2/	$480 M	$513.8 M
	f. Cost per minute of switched voice service (SVS) compared to commercial equivalent+++ 3/		Less than overall commercial equivalent

1/ Switched voice service estimates may fluctuate due to customer demand, and would significantly increase if new users are brought onto the networks.

2/ FY 1993 estimate reflects originally anticipated 12 percent price reduction as a result of Price Redetermination/Service Reallocation.

3/ FY 1993 will be the first time this performance measure has been reported on.

+++Identified to OMB as performance measures.

MANDATORY USE

Mr. HOYER. Mr. Scott, just let me ask one question, because I am going to be interested in this. You indicate that all the vendors, all three, in fact urged and said that there ought to be a requirement that we have the mandatory use provision. Was that in written submissions to GSA?

Mr. SCOTT. It is my understanding, sir, that that was in discussions with Mr. Brooks' committee at the time, Government Ops, is where it came up, as they were constructing the 21 point agreement that GSA and the Government Operations Committee entered into.

I am told—I wasn't in this job at that time that the vendor community had some hand in that, and that that is the basis for it.

Mr. HOYER. I would be very interested if you would ask the folks at your shop to look to see what written suggestions, presumably during the course of putting the RFP together, there was input from the perspective bidders so that GSA would know exactly what the—this is a pretty big operation and how to do it best, you need to get some advice from those people who are doing it, whether or not there were representations from—evidencing the fact that all the vendors suggested this.

Mr. SCOTT. I would be glad to furnish that.

[The information follows:]

We are continuing to research this issue. However, "Beyond FTS2000: A Program for Change," prepared by Bernard Bennington, who was responsible for replacing the FTS2000 system between 1982 and 1988 provides some insight. "Martin-Marietta's feeling disadvantaged and Brooks desire to make the system mandatory were related." " * * * Martin-Marietta was adversely affected in terms of ability to price competitively by the breaking up the network. It complained orally to GSA and told GSA it had visited Brooks to indicate that it could not compete effectively even with 60 percent of one million lines and that it needed Defense Department traffic added to the system as a minimum. It also requested guarantees." We will provide any additional documentation that can be located in the near future.

Mr. HOYER. I will ask the Government Operations Committee the same thing frankly and see if we can get that information. I am going to leave now, and, again, I apologize, but I want to assure all of the folks that are here that I will be open to further communication and will review all the testimony that has been submitted to us.

I am going to ask Mr. Visclosky to proceed with the balance of the hearing, along with Mr. Lightfoot. We may have a further hearing and if so you all will receive notice. With GAO, I think we should have a subsequent hearing, Mr. Lightfoot, because I didn't want to jam them together in light of the fact they are pretty much the outside gurus, independent and objective folks.

GSA is somewhat of a party and you made the decision, you have a private offering in this decision. GAO, the theory is, has none of that. So we will look at them as well. But we will do that separately.

Thank you very much, thank all of you for being here. Mr. Visclosky.

FTS 2000 OFFICE

Mr. VISCLOSKY [presiding]. Mr. Lightfoot.

Mr. LIGHTFOOT. Thank you. Mr. Scott, the question I asked earlier, which I guess probably should have been more appropriately directed at you than at the MCI folks, but in terms of the size of—the growth in the office, the FTS 2000 office, as I understand it, we got, what, 300, 400 employees that are going through rates and checking those kinds of things.

It would seem that in this day of modern technology, that there might be more efficient ways to do that. Is that a fair assessment or not?

Mr. SCOTT. We believe this is the most efficient way to do it. I would point out that the transition to FTS 2000 was a great big job and GSA staffed up for that. The staff has drifted down rather constantly since that. It is now about 275 going down to about 233 in 1995. We have been on a pretty solid freeze now in the program for about two-and-a-half years, realizing that as you move from a transitionary state to a maintenance state, you need a little different mix of people, that you may need less people, so we are drifting down. Ultimately I believe the number is 233 in 1995.

Now, we did charter through the Interagency Management Council, the agency council that assists us in managing the program, a management review of ourselves last year. They gave us a pretty comprehensive review and made some recommendations in structure which we think will help. Part of those reductions came out of that.

Mr. LIGHTFOOT. So if I understand you correctly, you say it is about 275?

Mr. SCOTT. Yes, sir.

Mr. LIGHTFOOT. And you plan to drop another 40 by 1994, 1995.

Mr. SCOTT. Yes.

MANDATORY USE

Mr. LIGHTFOOT. The mandatory use, which is obviously a big issue in this whole thing, again, I will ask the same question I asked the MCI folks, if that clause is not in the language, don't you still have at GSA the authority to rule whether something is in the best interest of the government, and if it was not, you could put the kibosh on at that point so to speak.

Mr. SCOTT. Theoretically, GSA has the authority and believe me, I have seen this from both sides of the fence. I was a telecommunications manager at a big agency, the Department of Energy. So I understand what you can do from the agency side and I understand what you can do from the GSA side.

The support of the Congress in this matter is critical. If we don't have it, we won't be able to maintain it with the strength we have today. We will maintain it but it will not have the strength it has today without the signal given by Congress that it continues to support that concept.

Mr. LIGHTFOOT. I am trying to be the devil's advocate here so we can get a full airing of the issue. If you have the authority at GSA to tell a agency what they can or cannot put in place and if the mandatory language was not there, then it would be up to you or whoever makes the decision within GSA whether we stay with

what we have or we put something else in, would there not be a directive within GSA to stay with the system?

Mr. SCOTT. There is a directive within GSA requiring mandatory use. However, agency telecommunications requirements are very, very complex subjects, and agencies have their ways of avoiding them, and without having a huge staff to police that—a good bit of it is voluntary. Without having a huge staff to police that at GSA, it becomes very difficult to overcome.

Mr. LIGHTFOOT. Correct me if I am wrong, because I am just trying to get a feel for what is involved here, what you just said then, that without the mandatory language, if I am the head of a agency out here, then I can find a clever way to get around it. Is that basically what you are saying?

Mr. SCOTT. That happens, yes.

Mr. LIGHTFOOT. Even though you would have to prove it at GSA.

Mr. SCOTT. That happens.

FTS 2000 CONTRACT

Mr. LIGHTFOOT. Looks like a new consulting business could open here.

As far as the original contract is concerned, with the two carriers that were successful on the bid, in your estimation, has that been fulfilled?

Mr. SCOTT. Would you say that again?

Mr. LIGHTFOOT. Well, the original contract that was with the two carriers who won the successful bid, in your opinion, has that contract been pretty well fulfilled, that we did what we said we were going to do, they did what they said they were going to do, so on?

Mr. SCOTT. Yes. I would disagree with Mr. Lombardi a little bit on enhancements. I am not satisfied with the speed that we have been able to do those. I would always like to do them better. We have completed over 200 modifications to the FTS 2000 contracts, but I am never satisfied that we are satisfying all the agency requirement that we should be—a lot of them have a lot of requirements.

It bothers me to permit them to go ahead and do things individually when we can get a better deal if we do it collectively. So I am always frustrated with that. So I am not as satisfied as the two vendors are with our success in doing that.

Let me talk a minute about fragmentation. I was with the Department of Energy in the early 1980s. When GSA attempted after deregulation to acquire a service here, there, and everywhere, and Mr. Cunnane ran it, and with all due respect to him, it wasn't very pleasant, and I and other agencies found every way we could to do something differently, because GSA, in trying to put all that thing together, it became a monstrosity.

And I don't think with the complexity of our world today, that—I don't want to be the one that will manage a FTS 2000 that buys circuits on an individual basis and from many, many vendors. That would be not a pleasant task, and not very cost effective for the government.

Mr. LIGHTFOOT. Okay. Not in terms of being—finding fault, I don't mean—because I am just trying to gain some knowledge here,

if I am the head of an agency and I see something out in the commercial market or I have heard of some new development that I think would be beneficial to help my agency work better, and it is not available on FTS 2000 today, what procedure would I go through as the head of that agency to say, Mr. Scott, here is this new technology; it could really help our agency to be more efficient, we don't have FTS 2000, how do I get it?

Mr. SCOTT. It happens very frequently. That is a common occurrence. A agency will write me a letter and say just what you said. We require this service, it is not available in FTS 2000. We will look at it, determine if it is going to be available on FTS 2000 very quickly, and if it is not available on FTS 2000, and is not going to be available on FTS 2000 very quickly, we give them approval to go and acquire it with the proviso that at some future date, if it becomes available on FTS 2000, it will be transitioned to the FTS 2000 service. Whenever their contract runs out or it otherwise becomes cost effective for the Government.

IOWA FIBER OPTIC NETWORK

Mr. LIGHTFOOT. Well, then as you were talking, an example came to mind. I wasn't thinking about this when I first asked the question, but the IRS, for example, has been in my home State of Iowa because we have almost a totally State-wide fiber optic network.

Mr. SCOTT. I am familiar with it.

Mr. LIGHTFOOT. Which has some good potential to improve them. That is not part of FTS 2000 at this point. It is owned by the State. If IRS was interested in getting that, that is the procedure they would go through?

Mr. SCOTT. Yes, sir.

Mr. LIGHTFOOT. If it ever becomes a part of FTS 2000, they would transfer it over?

Mr. SCOTT. Yes, sir. We are looking closely at how can we work with that Iowa network to connect Federal Government, State government, local government, citizens. There is a report out there right now that we participated in.

Mr. LIGHTFOOT. Thank you. Appreciate your information this morning.

PRICE REDETERMINATIONS

Mr. VISCLOSKY. Mr. Scott, just so I understand what we are talking about. You had a competition and the contract was for 10 years and the contract was entered into in 1988?

Mr. SCOTT. Yes, sir.

Mr. VISCLOSKY. There were essentially two parties involved, that is AT&T and Sprint, and the division of that contract has been 60/40?

Mr. SCOTT. Yes, sir.

Mr. VISCLOSKY. From time to time you have a price redetermination. Is that an annual redetermination?

Mr. SCOTT. No, the contract provides for price redeterminations at year four and year seven. We just completed the year four. Now, just to tell you a little bit more about price redetermination, up to 40 percent of each vendor's existing revenue share is at risk. If the

prices end up with some—with sufficient disparity we would more traffic to shift up to 40 percent of the revenue base from one vendor to the other vendor, to the winner.

We went through that last year. The prices were not different enough to shift traffic, and we are continuing at 60/40. However, as was pointed out earlier, even though we didn't have to shift traffic, we lowered the prices. Compared to 1992, prices projected forward over FTS 2000 were $450 million less.

Mr. VISCLOSKY. And essentially in that redetermination you could have moved 16 percent of Sprint's traffic to AT&T or 24 percent of AT&T's traffic to Sprint 24 percent or 16 percent of the traffic either way of the total of 100 percent?

Mr. SCOTT. Yes. Revenue instead of traffic—up to 40 pcerent of each Vendor's revenue share.

Mr. VISCLOSKY. Okay. And it was just the two companies who bidded against each other?

Mr. SCOTT. Yes, sir.

Mr. VISCLOSKY. And in 1998 or prior to 1998?

Mr. SCOTT. In 1995 we will do that again.

Mr. VISCLOSKY. But in 19——

Mr. SCOTT. We will do another price redetermination in 1995.

Mr. VISCLOSKY. Because that is year seven?

Mr. SCOTT. Year seven.

MANDATORY USE

Mr. VISCLOSKY. Mr. Scott, the FTS 2000 contract was awarded by GSA in 1988 to the two vendors we have just discussed. Since 1989 the Committee has included a provision mandating Federal agencies to use FTS 2000. On March 1 of this year, GSA reported to Congress that the prices paid under the FTS 2000 contract, in aggregate, were lower than the commercially available prices.

While the administration is requesting the provision be retained in 1994, the Office of Management and Budget acknowledges that GSA has the authority to mandate use of FTS 2000 through the regulatory process. Why are you asking the Committee to legally mandate the use of FTS 2000 when you can do it yourself?

Mr. SCOTT. Well, the Congress of the United States is a very powerful body and——

Mr. LIGHTFOOT. Regardless of popular opinion, right?

Mr. SCOTT. And we believe the FTS 2000 has been a very successful program and we think a cornerstone of that success has been the Congress' support. Removal of the mandatory use in legislation would give a clear signal to my customers and to the industry that Congress is not continuing that support.

Mr. VISCLOSKY. But in terms of the legal sense, and I would like to welcome all the members of the bar who attended today, all it means is that you could do it.

Mr. SCOTT. Yes, sir. We have the legal authority to mandate.

Mr. VISCLOSKY. So part of this, it is a question of perception?

Mr. SCOTT. Yes, sir.

Mr. VISCLOSKY. From your point of view, as to what the agencies would feel the law would be at that point in time?

Mr. SCOTT. Yes, that is right.

Mr. VISCLOSKY. What would be the effect on the contract or the price caps if the mandatory provisions were not included, if that perception eventually changed in some of these agencies? Perceptions change but your ability to act on them might not.

Mr. SCOTT. If the mandatory use was removed from legislation, we would spend a lot of time in my office fending off initiatives to leave the service. That is the problem we have, and I believe the service would deteriorate in that some would find reasons—would leave for one reason or other, and our program would not have the strength that it has today.

COST EFFECTIVENESS STUDY

Mr. VISCLOSKY. Mr. Scott, in the 1993 Appropriation Act, we required a cost effectiveness study for FTS 2000, and that has been submitted. In the 1994 budget request, language is included requiring the submission of another study by July 31 of 1994, next year.

Mr. SCOTT. Yes, sir.

Mr. VISCLOSKY. What would be the benefit of this additional requirement if we have just completed the study?

Mr. SCOTT. We are in a dynamic industry. Insertion of that language would provide assurance that we are going to continue to monitor this situation and to make sure as we go along that we have the best prices in the industry.

As has been said earlier, we have implemented PAPCAPs and are in the process of exercising the first round of PAPCAPs presently, and that will give us the vehicle to monitor that situation every three months and to adjust the price accordingly.

By the way, one thing that wasn't stated is the PAPCAP agreements that are in the contract call for us to have a cushion below the lowest price that we find. Realizing that our marketplace is so dynamic, in three months things might change and we wouldn't be lower anymore.

So we believed it was prudent to have a cushion. To get specifically to your question, in July 1994 we propose to deliver to Congress a report saying this is how FTS 2000 is doing versus the commercial world at this point in time, as we did in the past.

COST REDUCTIONS

Mr. VISCLOSKY. In terms of the original contract in any price redetermination, is there an adjustment made on a quarterly basis or on an annual basis for the price, given what the commercial rates are?

Mr. SCOTT. There are two vehicles. We have the price redetermination, year four and year seven, in which we run a competition between the two vendors, which is the first vehicle. The second vehicle is the PAPCAP we consummated in December, this last year, which calls for us to go to the marketplace every three months to find the best prices and exercise the PAPCAP.

If the prices have dropped, our vendors prices are now higher than prices in the marketplace and have to drop below the best prices found in the marketplace.

Mr. VISCLOSKY. And the parties have agreed to that?

Mr. SCOTT. Yes, sir.

Mr. VISCLOSKY. That is now part of the contract?

Mr. SCOTT. Part of the contract.

Mr. VISCLOSKY. That is new in the contract?

Mr. SCOTT. We had an original PAPCAP. It didn't cover all the services. We recognize that having a 10-year contract, you must have a way to keep the prices in line. Because it is a dynamic market, it has changed dramatically pretty consistently down over this part of the contract.

So we recognize that in order to maintain the prices properly, we needed a mechanism that would be regularly applied to ensure that our prices are right, and that is what the PAPCAP will do for us.

Mr. VISCLOSKY. And GSA, I assume, because this was a quarterly adjustment potentially——

Mr. SCOTT. Yes, sir.

Mr. VISCLOSKY [continuing]. Is going to be doing that on a continual basis?

Mr. SCOTT. Yes, sir.

Mr. VISCLOSKY. What is the difference between that continual price on a quarterly basis and a cost effectiveness study?

Mr. SCOTT. The cost-effectiveness study was done at one point in time, as the one next July will be done at one point in time as the legislation is passed and we felt we needed something more than that, something more than just a one point in time, a poll of the industry.

So we required ourselves to do it every three months because we think our industry is dynamic enough that we need it.

Mr. VISCLOSKY. To the GSA, what is the cost of the cost-effectiveness study? How many dollars did we spend on that study?

Mr. SCOTT. Ballpark—I can give you ballpark. I can get you the exact number.

Mr. VISCLOSKY. For the record, that would be fine. If you have a ballpark now, that would be great.

Mr. SCOTT. I think it was about $630,000. It was overseen by an independent user committee and was done by two independent contractors. I will have to get you the number.

Mr. VISCLOSKY. If you could. And even though you are doing this quarterly adjustment, you think you need to do the cost-effectiveness study again?

Mr. SCOTT. We probably wouldn't do such an elaborate one again. We probably wouldn't do it exactly like that. It was a one-time thing to make sure where we were. I don't envision it costing that kind of money in the future.

Mr. VISCLOSKY. And I understand it is a ballpark figure, it refers to the study that was completed in the quarterly time of March 1st. It is not the anticipated cost of the new study.

Mr. SCOTT. That is right.

[The information follows]

The FTS2000 Cost Effectiveness Study was performed by two independent contractors with oversight by a subgroup of the FTS2000 Interagency Management Council. The total for contractor costs is $632,500.

SERVICES COVERED BY FTS 2000

Mr. VISCLOSKY. The portion of total Federal telecommunications that could be procured under the existing FTS 2000 contract is actually being procured under the contract?

Mr. SCOTT. I am going to have to ask for clarifications. You said telecommunications in the broad sense. I interpreted the broad sense, that includes all telecommunication, local telecommunications and whatever. We estimate that long distance service is less than 40 percent of the total revenues or total expenses for government.

We estimate that intercity long distance services are well under half, probably under 40 percent of the total. As we know, prices have dropped dramatically in this industry. As we know, agencies are obtaining much more flexible, more sophisticated devices locally, so it is under 40 percent.

We estimate that of the intercity telecommunications for the government, that we have around half of it on FTS 2000.

Now, you had asked the question, why isn't all of it on the FTS 2000. A very good question. One, the Warner amendment kept DOD in their command and control requirements from the Brooks Act and from FTS 2000. That is a very substantial piece of business.

I will give you some examples. We have some others that are non-FTS 2000 that had particular requirements that, as I said before, we don't prevent agencies from getting services if they required them.

FAA has their LINCS contract which required very high reliability services for connecting their traffic control centers, and we gave them an exemption to acquire that service separately, which they did. We have other cases where—DOD is closing bases. Many of those we never transitioned to FTS 2000 because it costs a lot of money to transition services and if a base is due to be closed in six months or a year, it probably is not cost effective to do it, so we don't do that.

We don't force DOD, if they have circuits in for command and control purposes, the Warner example, then they have an administrative requirement, and if they have spare capacity on that, we permit them to use it instead of FTS 2000. So it ends up, we believe, that somewhere around 50 percent of the intercity market is on FTS 2000.

We will continue to grow. Ultimately, the FTS 2000 might get up to 60 or 65 percent, but will never do all of it. I don't think it should. FTS 2000, I don't believe, should be all things to every agency.

Agencies have particular requirements that are not needed by many other agencies, we probably shouldn't pursue that on FTS 2000.

Mr. VISCLOSKY. My wife, and everyone else who knows me, would describe me as someone who is not a "power user" with regard to telecommunications and computers. What you are telling me is, when I pick up the phone for those normal every day things that I do with a communications system, there are some very special uses and utilizations that may not be and are simply not compatible

with the whole range of functions that are performed by the United States Government, particularly in terms of the Department of Defense.

Mr. SCOTT. There may be particular requirements that they can do best and we don't have any problem with that.

CLAIMS OF LOWER COST ALTERNATIVES

Mr. VISCLOSKY. There is a lot of controversy over the issue of vendors who obviously were unsuccessful in terms of the 1988 bidding. Would you want to comment on their claims that they could provide these services today at a lower cost?

Mr. SCOTT. I don't think it is appropriate for me to say. The market certainly has been dynamic since 1988. Most of the same players are still here. It is just for one reason or other, there were winners and there were losers and the losers would like to get back in the game, I don't think things have changed much since then. If you had a new competition today, I couldn't predict the outcome.

Now, one interesting thing to talk about for just a moment is, we are starting to think about what do we do after FTS 2000, and we have an interagency committee that is starting to look at that and Chairman Glenn over at the Senate side has chartered a GAO study to look into it.

We certainly have an open mind as to how it ought to be done for the future. Certainly I believe that the two-vendor concept has worked very well. I am not going to speculate as to what would be best at that time.

But over the next year, we will be starting to formulate a strategy for what—how does the government get its long distance service after 1998.

BIDDING PROCESS

Mr. VISCLOSKY. Generally what is the bidding process in terms of the time frame? Is it a year competition, year-and-a-half? Is it a shorter period of time than that?

Mr. SCOTT. The original FTS 2000 competition took about four years to complete. We are estimating that—we are starting right now five and a half years from the time we would have to be transitioned out of the service we have.

We feel like we are on a reasonable schedule. That five-and-a-half years from now, we could be transitioned to some new service. Of course, that means that transition time being what it is, we would have to have a new contract in place about three and a half years from now. So it takes that long to do this task.

Mr. VISCLOSKY. In anticipation of—and is it at the end of 1998?

Mr. SCOTT. December 1998.

Mr. VISCLOSKY. Mr. Scott, I appreciate your testimony very much, as well as your answers. I have to familiarize myself with the issue and reorient myself on a regular basis. I actually understood your answers. I appreciate that.

Mr. SCOTT. Thank very much. I appreciate that.

SPECIAL REQUIREMENTS

Mr. VISCLOSKY. Mr. Lightfoot, do you have anything else?

Mr. LIGHTFOOT. Just a couple things to follow on what Peter had asked. Special requirements, like with DOD and the FAA, is some of that keyed into security of the systems and a higher quality line? For example, for the reliability factor for the FAA, to keep all the ATC centers connected, that sort of thing.

Mr. SCOTT. Yes, sir, and we see more agencies looking for higher reliability. And I would like to say, it is not because our services aren't reliable. They are more reliable than they have ever been, but people are depending so much on telecommunications services, they can't afford to lose them.

Whenever you have social security sitting there with a terminal in front of them and it is their lifeline to that computer that they can answer the question to the recipient, when that goes down, they are in deep trouble. We can't afford for services to be out.

So FAA's situation with their air traffic centers give us a significant reason. We must cause FTS 2000 to step up to that because others are going to be requiring these services. So we have some modifications we are working on to provide a higher reliable service, redundancy, back-up services, dual paths, those kinds of things, because we recognize that a lot of agencies are going to require that kind of thing, so we are on a fast track to enhance those services so that the higher reliability can be provided.

Mr. LIGHTFOOT. Our whole telecommunications system is a marvel of the world, I think. And you go to other countries and find out how difficult it is to make a simple phone call. Here we have got everything from the rural co-ops to the big giants and everybody in the country from Walmart to whoever is making equipment and the darn stuff all works, which is kind of amazing when you put it altogether.

MONITORING OF RATES

Just one other quick question Peter triggered a thought on the rates that you monitor. I guess I would like just a quick description of how you go about monitoring the various rates; how many do you look at? Are these published somewhere?

I realize that probably a lot of the contracts they have, the telecommunications companies have with some of their people is probably fairly tightly protected information. How do you go about determining what those rates are?

Mr. SCOTT. You are absolutely right and it has been mentioned up here this morning. Many of the contracts customers sign include nondisclosure agreements, and that makes the job difficult. There is no question about that. Fortunately, AT&T has to file all theirs and they are all filed, readily available at the Federal Communications Commission.

We believe we have a very competitive market and we feel they are very closely reflective of that market. AT&T's are filed. Many of the MCI and Sprint tariffs are filed. They aren't all filed. We feel that gives us a majority of the market. We feel very comfortable with it.

That is one of the reasons that when we did this cost effectiveness report, we retained the interagency committee and contractors to support them, to find the best pricing they could, and they were

somewhat successful in going beyond the FCC but not with great success. People just won't tell you those prices but we believe that the market being so competitive, the prices we are getting are representative.

Mr. LIGHTFOOT. But in reality, if I was a telecommunications company and I cut a deal with your company and I could be below what this market rate is or we could have a deal which you would never have any way of knowing that.

Mr. SCOTT. That could happen.

Mr. LIGHTFOOT. But you go with the published tariffs.

Mr. SCOTT. Yes.

Mr. LIGHTFOOT. Thank you. I appreciate it.

INTRODUCTION OF MR. CRANE OF MCI AND MR. COLE OF WILTEL

Mr. VISCLOSKY. Mr. Scott, thank you very much.

If I could recall Mr. Crane from MCI and Mr. Cole from WilTel, please.

You have had heard the testimony from GSA as well as the other witnesses. I would simply invite you in terms of rebuttal to have an opportunity to make any other further comments that you would like.

SUMMARY STATEMENT OF MR. CRANE

Mr. CRANE. I think one of the things that we should say first is that let's remove the taint of the sour grapes scenario that has been painted very well so far. The fact of the matter is that we were a subcontractor to one of the original bidders, Martin Marietta, and as such, we neither had any discussions nor put anything forth relative to mandatory use. It has not been our position to support mandatory use and we continue to take that posture in the marketplace.

It was Martin Marietta that in fact insisted on mandatory use because they had, in their bid structure, prepared to spend a great deal of capital to build a network and therefore felt that there was a volume required in order to fulfill that investment they were making.

So I just wanted to set the record straight in terms of MCI's position on mandatory use, and I think the second piece of mandatory use is, very simply, if the GSA has the authority to basically encourage the agencies to follow along with the FTS 2000 contract, should that not be sufficient, I think the argument is if FTS 2000 is as good as it purports to be in terms of pricing and services et cetera, then why wouldn't the agencies readily avail themselves of those capabilities and prices?

The fact of the matter is that the competitive nature of the marketplace is constantly changing that pricing level and the services that are available in the marketplace, and as such, agencies seeking to improve their communications capabilities and lower their costs of doing business, which is clearly a directive from the White House. They are seeking ways to do that.

And if, in fact, the current FTS 2000 contracts don't provide for that level of savings or that level of capability, then shouldn't those agencies be allowed to go forth and procure those services? I

think in fact that Mr. Scott basically gave you that sense that, yes, they could, and in fact in certain cases that has already been done. The FAA LINCS project is an excellent example of an agency looking to improve its communications capability where it went outside of FTS 2000 to in fact procure those services.

GOVERNMENT OPERATIONS REPORT

Mr. VISCLOSKY. Mr. Crane, one thing I might ask and you can provide that for the record, in October of last year, the Government Operations Committee issued a report and did not have some flattering comments relative to MCI, page 35 of that report. If you would care to comment now or for the record, on the company's position relative to some of the assertions made in that report, I would appreciate having that.

Mr. CRANE. I would like to reserve the right to provide that for the record and I would respond to that and submit that.

Mr. VISCLOSKY. That would be fine.

[CLERK'S NOTE.—Comments are contained in a letter to Chairman Hoyer, a copy of which follows:]

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Gerald J. Kovach
Senior Vice President
External Affairs

May 21, 1993

The Honorable Steny Hoyer
Chairman
Subcommittee on Treasury, Post Office
and General Government
Committee on Appropriations
U. S. House of Representatives
H-164 Capitol Building
Washington, DC 20515

Dear Mr. Chairman:

MCI Communications Corporation (MCI) thanks the Subcommittee for inviting Jonathan Crane to testify at the hearing on the FTS 2000 mandatory use provision included in previous appropriations bills. We particularly appreciated the thorough, fair and thoughtful examination that you and other members of the Subcommittee gave this important issue. MCI submits this letter for the record to respond to specific questions raised at the hearing and to clarify a few other points.

MCI and many other long distance companies strongly oppose this anti-competitive policy. This policy awards the two FTS 2000 vendors with protection from competition when significant evidence suggests that the Federal Government -- the world's largest telecommunications user -- overpaid for FTS 2000 services by $250 million between December 1990 and December 1992. In our intensely competitive and dynamic industry, those overpayments constitute a significant, taxpayer-financed competitive advantage. They enable the FTS 2000 vendors to cross-subsidize their offerings in the commercial marketplace, impeding industry competition to the detriment of government, business and residential consumers.

MCI HAS NEVER BEEN A PROPONENT OF MANDATORY USE

In response to your direct request, we first address whether MCI has ever advocated mandatory use policy. Supporters of that policy have attempted to cast MCI as an original "proponent" of that provision. However, such assertions mistakenly attribute to MCI the position or actions of others that MCI never authorized, adopted, or advocated. In short, MCI was not involved in the development of the mandatory use provision in appropriations legislation and never acted as a proponent of its enactment.

MCI

Prior to the General Services Administration's (GSA) implementation of mandatory use after the award of FTS 2000, the only position taken by MCI that even remotely addressed the issue questioned the wisdom of such a policy. In comments submitted in December 1985 on the original draft FTS 2000 request for proposals (RFP), MCI expressed concern about indications that GSA contemplated requiring agencies to commit to FTS 2000 as the exclusive vehicle for satisfying requirements for long distance services for the first three years of the program:

> No single service universally meets all the Government's communications requirements. Even if FTS 2000 finally meets all the technical requirements of GSA's feature menu, there will still be a role for specialized services. What if an Agency finds conventional tariffed WATS or some future tariffed service to be more economical and applicable to its needs? . . . It is not at all certain that it is in the best interest of any Agency to agree to such an exclusive commitment.

We have included a copy of the pertinent portions of those comments as Attachment A.

Although the FTS 2000 RFP, as amended in October 1987, indicated that the program would be "mandatory" for all federal agency activities subject to the Brooks Act, nothing in the RFP or then existing law or regulations provided any indication that this requirement would evolve into the inflexible and cost-insensitive policy that Congress adopted and GSA subsequently implemented.

Indeed, the RFP did not, and the subsequently awarded contracts do not, require unconditional mandatory use of FTS 2000. While expressing the government's intent to obtain the specified services from the two FTS 2000 vendors for the ten-year contract life, the RFP expressly qualified that intent by limiting the government's contractual obligation to purchasing only minimum guaranteed dollar amounts (Section H.4 (b)), and setting forth contingencies -- performance problems, changes in market pricing or technology -- under which the government would procure services from other vendors. (Section H.11(d)).

The terms of the amended RFP also were consistent with the generally understood meaning of the term "mandatory" in government contracts parlance at that time. For example, many federal agencies must use Federal Supply Schedule contracts as "mandatory" sources of supply, yet the Federal Acquisition Regulation (FAR) has long recognized an exception to that "mandatory use" requirement if an ordering agency finds that the same item is available at a lower price from another source. FAR 8.404-1(e) (See Attachment B). Accordingly, prior to the submission of the initial proposals, MCI reasonably anticipated that the government would implement mandatory use of FTS 2000 in a manner consistent with traditional practice that ensures the maximum savings from aggregate purchasing, yet prudently preserves the option to pursue more cost effective alternatives if they became available in the marketplace.

MCI

MCI did not submit a proposal as a prime offeror in the FTS 2000 procurement process. Rather, we participated as one of at least ten potential subcontractors on the team that Martin Marietta assembled to pursue the award. While Martin Marietta apparently expressed concern about the government's ability to deliver sufficient traffic to meet the minimum guarantees under the contract and supported inclusion of a mandatory use provision in appropriations legislation, MCI played no role in that process. Nor did MCI participate in any discussions with the GSA or Congress concerning the mandatory use requirement in 1987 or the language inserted in the FY 1989 appropriations in June 1988 after the submission of the initial FTS 2000 proposals. MCI has never advocated that Congress enact the mandatory use rider in this Subcommittee's appropriations bill or any other legislation.

MCI HAS NOT SOUGHT TO UNDERMINE THE FTS 2000 PROGRAM

At the hearing, MCI was asked to comment on an unflattering characterization of its efforts to eliminate mandatory use policy made in a Government Operations Committee report. In that October 1992 report entitled "FTS 2000: Management Reforms and Intensive Congressional Oversight Ensure Savings of $500 Million for the Taxpayers," the Committee described MCI's participation in the policy debate over mandatory use as a "negative lobbying effort" undertaken by a "losing . . . vendor" to "bully the Government into abrogating" the competitively-awarded FTS 2000 contracts. The authors of that report either misunderstood or intentionally mischaracterized MCI's position and the reasons underlying its involvement in the controversy surrounding mandatory use of FTS 2000.

MCI has never advocated that the government abandon or dismantle the FTS 2000 program. Nor has MCI ever suggested in any way that the government "abrogate" the FTS 2000 contracts or any obligation to the vendors under those contracts. Rather, MCI has voiced legitimate concerns that the policy of mandatory use prevented the government from realizing the maximum benefits of those contracts by insulating the FTS 2000 vendors from the intense competition in the long distance industry and conferred upon the FTS 2000 vendors unfair competitive advantages -- at taxpayer expense -- in the contest for business in the long distance market beyond FTS 2000.

Elimination of mandatory use would in no way diminish the government's contractual obligations to the FTS 2000 vendors. In Attachment C, we provide the pertinent contract provisions and a brief explanation of the government's obligations under those provisions. Allowing the existing mandatory use provision to lapse would restore to GSA the flexibility to consider alternative sources as provided under both FTS 2000 contracts and to exercise the full scope of its authority under the Brooks Act to manage federal telecommunications procurement in an economic, efficient manner.

Giving the government the flexibility to consider alternatives to FTS 2000 is unlikely to result in a proliferation of separate procurements. Rather, competition will compel the FTS 2000 vendors to provide the best prices, technology and service to ensure a high level of agency participation in the program. If they do not, GSA will have the option to authorize procurement from other sources to maximize savings for the government and the taxpayer.

The Committee's report also challenged MCI to release its "original bid on FTS 2000" to compare against the winning bids "in order to gauge the true extent of [MCI's] commitment to lower prices for Government agencies." As explained above, MCI did not submit a proposal to provide FTS 2000 services as a prime offeror. In the role of a potential subcontractor, MCI was not privy to the rates that Martin Marietta proposed to charge for FTS 2000 services.

MCI has demonstrated its commitment to providing government agencies with high quality, low cost telecommunications services in several federal procurements outside the scope of FTS 2000 for which it competed, and won, over the last four years. Most recently, MCI won the recompetition for Legislative Branch long distance services. Congress does not mandate by law that government users acquire services from MCI under these contracts.

In any event, MCI respectfully submits that the dramatic price declines in the telecommunications industry over the last five years have rendered comparisons of rates proposed in 1988 irrelevant to determining whether mandatory use is good public policy today.

FTS 2000 RATES EXCEED COMMERCIAL LEVELS

MCI has never disputed that FTS 2000 represents an improvement in all significant respects over the obsolete and overpriced system that it replaced. FTS 2000 provides far better services at rates that have allowed the government to realize savings in the hundreds of millions of dollars over the old system. However, a network first put in place in 1963 does not provide the appropriate benchmark against which to compare FTS 2000. Because of mandatory use, FTS 2000 has not kept pace with the current commercial marketplace, the only relevant standard for such cost and performance comparisons.

In your questioning of the witnesses from AT&T and Sprint, you correctly concluded, and witnesses agreed, that given the tremendous volume and the long term nature of the FTS 2000 contracts, the government should get the lowest rates available in the marketplace. It isn't. The issue is not whether FTS 2000 rates were sufficiently below the commercial market rates to reflect the volumes of traffic and longer term of those contracts. As graphically depicted in Attachment D, FTS 2000 pricing substantially exceeded the lowest known commercial rates over the past two years and continues above commercial market levels even after the substantial reductions achieved as a result of the recent price redetermination process.

From December 1990 to December 1992, the government paid roughly $250 million more for FTS 2000 switched voice services than equivalent services would have cost at the commercial rates that GSA used as a benchmark for its cost effectiveness comparison. While last year's price redetermination substantially lowered rates, FTS 2000 will cost roughly $22.9 million, or 7%, more than commercial equivalents for voice, video transmission and dedicated line services. These three services account for nearly 97% of FTS 2000 billings. The gap between FTS 2000 and competitive market rates will widen as competitive factors such as 800 number portability, emerging competition in local access and deployment of cost-reducing advances in transmission technology continue to put downward pressure on market rates.

PROTESTS OF SERVICE ADDITIONS TO FTS 2000

In your questioning of the AT&T witness on FTS 2000 technology, he asserted that protests of non-FTS 2000 vendors repeatedly have delayed and blocked the attempts of AT&T and GSA to modify the FTS 2000 contracts to add advanced technologies. He also indicated that the General Services Board of Contract Appeals (GSBCA) had rejected as baseless the underlying theories upon which these protests had been brought. With all due respect, he errs on both counts.

GSA has issued well over 100 modifications to each of the FTS 2000 contracts. Many of those modifications have involved the upgrade of the services included in the original FTS 2000 procurement to incorporate technological improvements and advancements. MCI participated in protests of only three of those modifications, one to the Sprint contract and two to the AT&T contract. MCI knows of no other protests. Accordingly, the overwhelming majority of the modifications to upgrade the performance of FTS 2000 services have not been the subject of protest actions.

AT&T's witness also failed to mention that in August of last year the GSBCA granted a protest that WilTel filed, and in which MCI intervened, challenging GSA's issuance of a modification to add high capacity dedicated point-to-point transmission service (DS-3) to AT&T's FTS 2000 contract as a sole source procurement in violation of the Competition in Contracting Act. The GSBCA ruled that the DS-3 service was an independent service beyond the scope of the FTS 2000 contract, for which GSA must conduct a separate competitive procurement.

While the GSBCA denied the other two protests that MCI initiated based on factual determinations that the modifications did not add new independent services to FTS 2000, those decisions leave untouched the fundamental principle that inclusion of new services beyond the scope of FTS 2000 without competition violates well established federal procurement law and regulations.

MCI

Attempts to expand the scope of FTS 2000 to add new services without competition provide federal agencies no assurance that such offerings will provide federal agency users with optimal technical solution at the lowest cost. Moreover, in the context of mandatory use, such actions create the potential for the government to use taxpayer dollars to subsidize the FTS 2000 vendors' development of technologies that other companies already have perfected and made commercially available. Accordingly, MCI will continue to challenge any such attempt to expand the scope of either FTS 2000 contracts to add services for which AT&T or Sprint has not competed.

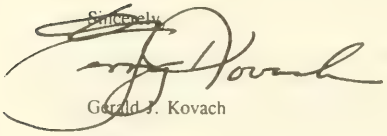
MISCHARACTERIZATION OF MCI'S FAA CONTRACT

Finally, in responding to your questions concerning the government's alleged commitment to maintain mandatory use throughout the 10-year term of the FTS 2000 contracts, the Sprint witness indicated that MCI had won a "10-year" contract with the Federal Aviation Administration (FAA) to provide critical air traffic control communications and questioned whether MCI would be willing to open that award to competition after three years. The FAA contract for which Sprint competed and lost is not a 10-year contract like FTS 2000. Rather, while the offerors had to provide fixed pricing for a 10-year period, the FAA contracted only for a base period of three years with seven one-year option periods. Thus, if MCI does not continue to offer the best price, quality and service to satisfy the FAA's air traffic control communications requirements, the contract will be open to competition in three years. MCI welcomes the challenge.

Again, Mr. Chairman, MCI appreciates your scheduling the hearing on FTS 2000 mandatory use and, particularly, for giving Mr. Crane the opportunity to provide an industry perspective on this important issue. Mandatory use policy is inherently anti-competitive. It has deprived the government of obtaining the best deal and it has harmed competition in our industry. MCI strongly urges the Subcommittee to oppose extending this policy.

Please do not hesitate to contact me if you or your staff have any questions.

Sincerely,



Gerald J. Kovach

Attachments

Attachment A

MCI
Telecommunications
Corporation
601 S 12th Street
Arlington VA 22202
703 486 3000

MCI

December 23. 1985

Rocco Saracina
GSA KETN
18th and F St. NW
Washington. DC 20405

Dear Mr. Saracina.

MCI is pleased to submit the attached comments to the Draft RFP for FTS 2000.

MCI renews its request contained in my November 25 letter. for a meeting with GSA to discuss our business concerns about this RFP. We still feel a meeting to be necessary. I will phone you after January 6. 1986 to discuss an appropriate date and who from MCI and GSA should attend.

MCI's concerns with this RFP primarily relate to the business relationships issues rather than the technical issues. Therefore. we have divided our comments into two sections

Section I - Business questions/contracting issues. This is a discussion of some of the changes in the proposed business relationships which we feel need to be made before it would be practical for MCI to respond to this RFP. This section also discusses some problems which we believe need to be resolved before this RFP can be fully compliant with current Government procurement regulations.

Section II - Technical requirements. In this section we follow through the RFP sequentially paragraph by paragraph in a more traditional manner. Our comments are numbered the same as the RFP paragraph to which they apply. Paragraphs where MCI is not at this time noting any particular problem are simply omitted without comment. Some of our comments are in the "helpful suggestion" category where we really do not see much technical difficulty. but feel clarifying language would be useful in order for vendors to understand what is desired. This would help eliminate the more cumbersome process of more formal questions after the final RFP is released.

Sincerely

Jerry L. Gibson
Director Government Systems

Section I - Business Relationships

MCI recognizes some of the problems that GSA wants to solve with this RFP. It is clear to all that present FTS service is substantially obsolete, both in terms of its cost efficiency and the features it offers. Improved technological developments make new and more efficient features and services available. The still evolving impact of divestiture, increasing availability of competitive services, and the increasing requirements for the Government to compete its services as expressed in such documents as the Competition in Contracting Act all make some sort of change seem inevitable.

The current need within the Government for increased fiscal/budgetary restraint is also a major factor. It is clear that these constraints are restricting the amount of skilled manpower the Government has available to complete the needed, increasingly complex and numerous telecommunications procurements.

The approach taken by the draft RFP for FTS 2000 is to establish a single nationwide vendor for all FTS 2000 services. That of course is only one of the possible solutions. Every service desired by the Government either is now, or soon will be, or easily could be a publicly offered tariffed service. Among the questions that need to be considered is whether increased benefits can come from a Government specific contracted service that could not be obtained more efficiently by using public sector services.

MCI is developing a series of tariffed service offerings called MCI Vnet [1] service which will deliver most of the technical requirements solicited in the RFP. AT&T has a similar (albeit less feature filled and more costly) offering it calls SDN. Other virtual networks of varying degrees of sophistication are evolving as well. The flexibility and amount of management information provided by these near future networks is unprecedented by past standards. When the capabilities of these tariffed offerings are fully understood, we believe real questions will exist about which Government unique requirements cannot be met by these public services.

Simply buying service from one or a variety of these tariffed offerings may produce superior service at more favorable rates to the Government versus the proposed single vendor approach.

Some of the possible benefits and problems that would result from having a single nationwide vendor are discussed in the following commentary.

---

[1]. Vnet is a registered service mark of MCI Communications Corporation

Exclusive Service to User Agencies?

Some of our Government contacts have recently indicated that an all or nothing participation commitment is being sought by GSA from participating agencies for the first three years. We believe this to be both an impractical and unenforceable requirement.

Today a single government site may have FTS access lines, AUTOVON access lines, WATS lines, DDD via CO trunks, plus a variety of dial up services such as Tymnet, Telenet, MCI Calling Card Service, etc. Obvious benefits result from redundant backup services. Unless toll restriction is ordered on every CO line and trunk, Dial 1 PIC service cannot be universally blocked.

No single service universally meets all of the Governments communications requirements. Even if FTS 2000 finally meets all technical requirements of GSA's feature menu, there will still be a role for specialized services. What if an Agency finds conventional tariffed WATS or some future tariffed service to be more economical and applicable to its needs? Would an Agency be allowed to have an automatic Switch Route Guide for which FTS 2000 is only one of the available route choices?

What internal Government regulation or agreement binds Agencies exclusively to FTS 2000? What contractual commitment with the winning FTS 2000 vendor would prevent some participating Agency from ordering, for example, WATS, or Dial 1 service, or Travel Card service from a different vendor that competes with FTS 2000? This issue is particularly relevant for expansion services or new services not clearly included in the scope of this contract. What benefits, if any, would the winning FTS 2000 vendor have in competing for these services at sites not included in the initial RFP, or for any expansion beyond the scope of the initial contract?

We are aware of considerable concern within the Government about this issue. It is not at all certain that it is in the best interest of any Agency to agree to such an exclusive commitment. GSA needs to more clearly resolve this general area within the Government.

8.403 Types of Federal Supply Schedules.

8.403-1 Single-award schedules.

Single-award schedules cover contracts made with one supplier at a stated price for delivery to a geographic area as defined in the schedule. Most schedules contain all information necessary for placing orders. Some schedules specify that contractor catalogs must be used for additional ordering information to aid in the selection of fabrics, colors, and similar variables.

8.403-2 Multiple-award schedules.

Multiple-award schedules cover contracts made with more than one supplier for comparable supplies and services. Contracts are awarded to suppliers of the same generic types of items at varying prices for delivery within the same geographic area. Contractor catalogs and pricelists must be used with the schedules to prepare delivery orders. The catalogs and pricelists contain information such as item descriptions, prices and discounts, order limitations, and delivery.

8.403-3 New Item Introductory Schedule.

The New Item Introductory Schedule (NIIS) provides the means to introduce new or improved products into the Federal Supply System. The schedule lists brand names of products available from various suppliers. With the exception of GSA, the only mandatory user of this schedule, Federal agencies and agencies authorized by law or agree ment may use the NIIS on an optional basis. Ordering offices must use contractor catalogs and pricelists with the schedule to prepare delivery orders.

8.403-4 International Federal Supply Schedule.

(a) The International Federal Supply Schedule (IFSS) provides sources of supply (supplies and services) at reasonable prices to U.S. Government activities located overseas. The use of the schedule is mandatory only on GSA.

(b) The schedule is divided into two sections. Section A includes those items which were awarded under sealed bid procedures, while Section B covers items that were awarded under negotiated procedures.

(c) Ordering offices need to review the information in the schedule and any applicable contractor's catalogs/price lists to ensure the proper placement of orders. Orders are placed directly with the contractors.

(d) Ordering offices shall forward copies of any orders (at the time the orders are issued) to the contracting office designated in the IFSS.

8.404 Using schedules.

(a) The planning, solicitation, and award phases of Federal Supply Schedules comply with FAR requirements. Consequently, contracting officers need not seek further competition, synopsize the solicitation or award, determine fair and reasonable pricing, or consider small business-small purchase set-aside procedures when placing an order under a Federal Supply Schedule.

(b) Before soliciting commercial sources, executive agencies shall determine if the required supplies or services, or similar supplies or services fulfilling the same purpose, are available from schedules (see FIRMR 101-26.4). If so, the ordering office shall proceed in accordance with the procedure of 8.404-1 or 8.404-2, as appropriate.

(c) In the case of mandatory schedules, ordering offices shall not (1) solicit bids, proposals, quotations, or otherwise test the market solely for the purpose of seeking alternative sources to Federal Supply Schedules; or (2) request formal or informal quotations from Federal Supply Schedule contractors for the purpose of price comparisons.

8.404-1 Mandatory use.

Schedules identify executive agencies required to use them as mandatory sources of supply. The single-award schedule shall be used as a primary source and the multiple-award schedule as a secondary source. The following are exceptions to the mandatory-use requirement:

(a) *Urgent requirements.* When an ordering office requires supplies or services with a shorter delivery time than specified in the schedules, and time permits, the ordering office shall request the contractor by letter, telegram, mailgram, or telephone conversation (confirmed in writing) to state the best delivery time that can be met under the circumstances and subject to all other terms and conditions of the schedule contract. The contractor shall be instructed to reply to the inquiry within not more than 3 workdays after receipt, by the same or a faster communications medium than the one by which the inquiry was received. If the contractor offers accelerated delivery acceptable to the ordering office, orders shall obligate the contractor to make the shorter delivery under all other terms and conditions of the contract. When the contractor fails to reply, or the best delivery time does not meet the ordering office's requirements, use of the schedule is not mandatory.

(b) *Small requirements.* Dollar or quantity minimums are established for most schedules, below which ordering offices are not obligated to order and contractors are not obligated to accept orders. Ordering offices may submit orders below established minimums, subject to the contractor's acceptance. Once an order is accepted, the contractor is obligated to perform according to all the terms and conditions of the contract. Some schedules require the contractor to accept orders below the dollar or quantity minimum, but authorize the contractor to include a service charge up to a certain dollar amount. In these cases, the

schedule will contain specific obligations and entitlements.

(c) Maximum order limitation. (1) Most schedules stipulate a dollar amount or unit quantity above which agencies shall not submit orders and contractors shall not accept orders. There may be a maximum order limitation (MOL) for each item as well as for the total order. Ordering offices should not reduce or split their requirements simply to avoid an MOL. Rather, ordering offices should consolidate their requirements whenever possible to take advantage of lower prices normally obtainable through definite quantity contracts for quantities exceeding the MOL.

(2) Ordering offices shall submit requirements exceeding the MOL in FEDSTRIP/MILSTRIP format, as applicable, to the GSA support region in accordance with FPMR 101-26.401-4(c), unless specified otherwise in the schedule. Optional schedule users may use this procedure.

(d) *Geographic coverage.* Each schedule defines geographic areas of coverage on a national, zonal, regional, or other basis. Ordering offices shall place orders with contractors serving the geographic areas in which consignees are located. When a consignee is located outside the geographic area of coverage, mandatory use is not applicable.

(e) *Lower prices for identical items.* (1) When an ordering office finds that an identical product (make and model) included on a multiple-award schedule is available from another source at a price lower than the schedule price, the office may purchase the item subject to the requirements to obtain competition.

(2) All cost and related considerations for lower priced products shall be evaluated, including but not limited to comparisons of warranties, transportation costs (origin and destinations), and delivery terms.

(3) When products are purchased from commercial sources on the open market (i.e., not under an existing Government contract) at delivered prices that are lower than the prices provided by multiple-award schedule contracts, ordering offices shall forward the following information, at the time the orders are issued, to the contracting office designated in the multiple-award schedule that was not used:

(i) Copy of the order.

(ii) Identification of the Federal Supply Schedule.

(iii) Name of the schedule contractor.

(iv) Applicable schedule contract number.

(v) Schedule contract price.

(vi) Schedule special item number (SIN).

(vii) Manufacturer's model and/or part number.

(f) *Report documentation.* Documentation of subdivisions (e)(3)(ii) through (e)(3)(vii) of this section may be provided as attachment(s) to the order, annotated directly on the order, or a combination of both. Interagency Report Control Number 0262-GSA-AR has been assigned to this report.

(g) *Absence of follow-on award.* Ordering offices, after any consultation required by the schedule, are not required to forgo or postpone their legitimate needs pending the award or renewal of any schedule contract.

8.404-2 Optional use.

(a) The following optional users may order from schedules and contractors may accept their orders:

(1) All executive agencies not specified in the schedules as mandatory users.

(2) All other agencies and activities of the Government, including legislative and judicial agencies as provided by law or agreement, nonappropriated fund activities as prescribed in 41 CFR 101-26.000, and the Government of the District of Columbia.

(3) Government contractors authorized to order under Part 51.

(4) Mixed-ownership Government corporations as defined in the Government Corporation Control Act (31 U.S.C. 9101).

(b) If a contractor accepts an order from an optional user under a schedule contract, all terms of the schedule contract apply to that order. Acceptance may be by written notice, delivery or performance, or failure to return the order within the time specified in the contract (usually 7 workdays).

8.404-3 Requests for waivers.

(a) When an ordering office that is a mandatory user under a schedule determines that items available from the schedule will not meet its specific needs, but similar items from another source will, it shall submit a request for waiver to the Commissioner, Federal Supply Service (F), GSA, Washington, DC 20406, except as provided in (b) below. Requests shall contain the following information:

(1) A complete description of the required items, whenever possible; e.g., descriptive literature such as cuts, illustrations, drawings, and brochures that explain the characteristics and/or construction.

(2) A comparison of prices and the technical differences between the requested item and the schedule item, identifying as a minimum the—

(i) Inadequacies of the schedule item to perform required functions; and

(ii) Technical, economic, or other advantages of the item requested.

(3) Quantity required.

(4) Estimated annual usage or a statement that the requirement is nonrecurrent or unpredictable.

(b) Ordering offices shall not initiate action to acquire similar items from nonschedule sources until a request for waiver is approved, except as otherwise provided in interagency agreements.

Attachment C

THE FTS 2000 CONTRACTS DO NOT REQUIRE CONTINUATION OF MANDATORY USE

The FTS 2000 contracts are "indefinite quantity" contracts. (Section H.3) Under those contracts, the government took on the obligation to purchase only a guaranteed minimum dollar amount of services -- $270 million for AT&T and $180 million for Sprint -- which the government has long since exceeded. Each FTS 2000 contract expressly states: "The Government is under no obligation to purchase service under this contract beyond the minimum dollar guarantee." (Section H.4(b)).

While the contracts express GSA's intention to obtain the specified telecommunications services from the two FTS 2000 vendors for the ten-year life of the contract, the contracts expressly qualified that intention by (a) limiting the government's contractual obligation to purchasing only minimum guaranteed dollar amounts under FTS 2000 (Section H.4 (b)), and (b) setting forth contingencies under which the government would procure services from other vendors:

> "Except as necessary to fulfill the minimum contract guarantee, the government is not obligated or required to satisfy its requirements for the services described in this contract from the contractor. However, the government intends to fulfill FTS2000 requirements from these contracts during the 10-year life of the contracts, unless significant performance problems occur, changes in market pricing occur, or significant changes in technology take place."

(Section H.11(d)). Given the dynamic forces at work in the long distance industry, no one can seriously dispute that dramatic changes in market pricing and technology have occurred since the FTS 2000 award. Thus, the FTS 2000 contracts do not bind GSA to continue existing mandatory use policy.

GSA concurs in this analysis. In a May 21, 1991, response to written questions from Congressman Hoyer, GSA Administrator Richard Austin stated that the FTS 2000 contracts do <u>not</u> create "a legal obligation enforceable by the contractors to require agencies to use FTS 2000 contracts for all long distance services." Administrator Austin went on to state:

> "These contracts were solicited and awarded as indefinite quantity, indefinite delivery contracts. Under this type of contractual arrangement the Government must only

> satisfy the minimum contract guarantees contained in the contracts. Moreover, the availability of services under these contracts remains a discretionary determination reserved by GSA."

Accordingly, while existing GSA policy, as reflected in the FIRMR, requires agency activities subject to the Brooks Act to satisfy requirements for FTS 2000 services under that program, the limitations on the government's contractual obligations provide GSA ample flexibility to alter that policy.

PB90-949501

AWARD/CONTRACT

1. THIS CONTRACT IS A RATED ORDER UNDER DPAS (15 CFR 350) — RATING: — PAGE OF PAGES: 1 | 5

2. CONTRACT (Proc. Inst. Ident.) NO: GS00K89AHD0005

3. EFFECTIVE DATE: See Item 20C

4. REQUISITION/PURCHASE REQUEST/PROJECT NO:

5. ISSUED BY — CODE:

General Services Administration
Information Resources Procurement Division
18th & F Streets, NW, KETF-Rm. G225
Washington, D.C. 20405

6. ADMINISTERED BY (If other than Item 5) — CODE:

7. NAME AND ADDRESS OF CONTRACTOR (No., street, city, county, State and ZIP Code)

AT&T Communications (AT&T)
1120 20th Street, NW
Washington, D.C. 20036

8. DELIVERY
☐ FOB ORIGIN ☒ OTHER (See below)

9. DISCOUNT FOR PROMPT PAYMENT
NA

10. SUBMIT INVOICES (4 copies unless otherwise specified) TO THE ADDRESS SHOWN IN — ITEM: Item 5

CODE: FACILITY CODE:

11. SHIP TO/MARK FOR — CODE:
See Sections C and F

12. PAYMENT WILL BE MADE BY — CODE:
General Services Administration
Finance Division, P.O. Box 17114
Fort Worth, Texas 76102-0114

13. AUTHORITY FOR USING OTHER THAN FULL AND OPEN COMPETITION
☐ 10 U.S.C. 2304(c)( ) ☐ 41 U.S.C. 253(c)( )

14. ACCOUNTING AND APPROPRIATION DATA
258X.A00ZA111.B8.25.A26.516.000

15A. ITEM NO.	15B. SUPPLIES/SERVICES	15C. QUANTITY	15D. UNIT	15E. UNIT PRICE	15F. AMOUNT
	FTS2000 Services for Network A				Estimated: [redacted]

15G. TOTAL AMOUNT OF CONTRACT ▶ [redacted]

16. TABLE OF CONTENTS

(X)	SEC.	DESCRIPTION	PAGE(S)
		PART I — THE SCHEDULE	
X	A	SOLICITATION/CONTRACT FORM	
X	B	SUPPLIES OR SERVICES AND PRICES/COSTS	
X	C	DESCRIPTION/SPECS./WORK STATEMENT	
X	D	PACKAGING AND MARKING	
X	E	INSPECTION AND ACCEPTANCE	
X	F	DELIVERIES OR PERFORMANCE	
X	G	CONTRACT ADMINISTRATION DATA	
X	H	SPECIAL CONTRACT REQUIREMENTS	
		PART II — CONTRACT CLAUSES	
X	I	CONTRACT CLAUSES	
		PART III — LIST OF DOCUMENTS, EXHIBITS AND OTHER ATTAC—	
X	J	LIST OF ATTACHMENTS	
		PART IV — REPRESENTATIONS AND INSTRUCTIONS	
X	K	REPRESENTATIONS, CERTIFICATIONS AND OTHER STATEMENTS OF OFFERORS	
	L	INSTRS., CONDS., AND NOTICES TO OFFERORS	
	M	EVALUATION FACTORS FOR AWARD	

CONTRACTING OFFICER WILL COMPLETE ITEM 17 OR 18 AS APPLICABLE

17. ☒ CONTRACTOR'S NEGOTIATED AGREEMENT (Contractor is required to sign this document and return 3 copies to issuing office.) Contractor agrees to furnish and deliver all items or perform all the services set forth or otherwise identified above and on any continuation sheets for the consideration stated herein. The rights and obligations of the parties to this contract shall be subject to and governed by the following documents: (a) this award/contract, (b) the solicitation, if any, and (c) such provisions, representations, certifications, and specifications, as are attached or incorporated by reference herein. (Attachments are listed herein.)

18. ☐ AWARD (Contractor is not required to sign this document.) Your offer on Solicitation Number ____ including the additions or changes made by you which additions or changes are set forth in full above, is hereby accepted as to the items listed above and on any continuation sheets. This award consummates the contract which consists of the following documents: (a) the Government's solicitation and your offer, and (b) this award/contract. No further contractual document is necessary.

19A. NAME AND TITLE OF SIGNER (Type or print)
[redacted]

20A. NAME OF CONTRACTING OFFICER
Carol A. Hall

19B. NAME OF CONTRACTOR — 19C. DATE SIGNED
BY [redacted] (Signature of person authorized to sign)

20B. UNITED STATES OF AMERICA — 20C. DATE SIGNED
BY Carol A. Hall (Contracting Officer) — 12/7/89

NSN 7540-01-152-8069
PREVIOUS EDITION UNUSABLE

STANDARD FORM 26 (Rev. 4-85)
Prescribed by GSA
FAR (48 CFR) 53.214(a)

REPRODUCED BY
U.S. DEPARTMENT OF COMMERCE
NATIONAL TECHNICAL
INFORMATION SERVICE
SPRINGFIELD, VA 22161

A. This is a multiyear contract for the implementation and operation of FTS2000 services for Network A. The contract term is 120 months from date of award. The total estimated contract value is [redacted]

B. The Contractor shall perform all services in accordance with:

1. This award/contract and Sections B through J of Request for Proposals No. KET-JW-87-02, as amended in Amendments 1 through 15, as described in Block 16 of this Contract Form,

2. Section K, Representations and Instructions and other Statements of Offerors, as completed by the Contractor on April 29, 1988, and amended on October 12, 1988.

3. The Contractor's proposal dated April 29, 1988, as amended October 12, 1988 (BAFO); October 14, 1988 (BAFO); October 21, 1988 (BAFO); October 24, 1988 (1 letter plus enclosures); November 21, 1988 (1 letter plus enclosures); December 2, 1988 (1 letter plus enclosures); and December 5, 1988 (1 letter plus enclosure).

4. The Contractor's Small and Small Disadvantaged Business Subcontracting Plan as submitted November 23, 1988, as amended December 2, 1988.

C. The Contractor shall provide a Service Oversight Center facility in accordance with Option 1 under Section C.4.4.

D. In Section H.4, Minimum Dollar Guarantee, the amount of the minimum guarantee is $270,000,000.

E. Pursuant to Section H.4, Minimum Dollar Guarantee, the obligated contract amount is $270,000,000.

F. In Section H.5, Maximum Contract Limitation, the amount of the maximum contract ceiling is $15,000,000,000.

G. In accordance with paragraph d. of Section H.13, Key Personnel, the following key personnel are included under this contract:

Name	Position

H.0 SPECIAL CONTRACT REQUIREMENTS

H.1 Term and Scope of Contract

This contract is for the procurement of telecommunications services for the FTS2000 program. The period of this contract is 120 months from the date of award. This multiyear contract is issued pursuant to the authorities of P.L. 89-306, the Brooks Act, and Section 201(a) of 40 U.S.C. 481(a), the Federal Property and Administrative Services Act of 1949. The FTS2000 program will be mandatory for all federal agency activities subject to PL 89-306 as implemented by the Federal Information Resources Management Regulations (FIRMR).

H.2 Geographic Area of Contract

The geographic area covered by this solicitation is defined as the 48 contiguous states, the District of Columbia, Alaska, Hawaii, Puerto Rico, Guam, and the U.S. Virgin Islands.

H.3 Type of Contract

This contract is a fixed-price, indefinite-quantity type contract with economic price adjustment and a form of prospective price redetermination, as described in Section H.14, Price Redetermination and Reallocation of Service.

H.4 Minimum Dollar Guarantee

a. The minimum dollar guarantee for this contract shall be _____* which shall be obligated within the first four years of the contract. This guarantee applies only to switched voice service usage, switched voice service features, switched voice service initiation charges, and the service oversight center.

b. The Government is under no obligation to purchase service under this contract beyond the minimum dollar guarantee.

H.5 Maximum Contract Limitation

The maximum contract ceiling for all monies paid to the contractor under this contract shall not exceed _____.**

---

*The amount of the minimum guarantee shall be identified at time of contract award. The amount shall be $270 million for Network A and $180 million for Network B.

**The amount of the maximum contract ceiling shall be identified at time of contract award. The amount shall be $15 billion for Network A and $10 billion for Network B. This maximum may be reallocated in years 4 and 7 in proportion to any reallocation of services under Section H.14.

d. If there is a greater than 10 percent decrease in the fourth year market price compared to the baseline market price, then a comparison between the market percent decrease and FTS2000 price performance shall be made. If the FTS2000 fourth year price as compared to the FTS2000 baseline price has decreased at a lesser percentage than the market price, then the government shall be granted a general price decrease. The percent decrease shall be equal to 50 percent of the difference between the FTS2000 percent decrease and the market percent decrease. The contractor shall initiate a general price decrease, subject to methodological review and concurrence by the government.

e. Except as they may be subsequently changed under Section H.14, the new prices shall become the baseline prices for the contract and shall be used to calculate the contractor's FTS2000 baseline price at the end of the seventh year.

f. Price adjustments allowed under this clause shall be applied prior to the exercise of Section H.14, Price Redetermination and Reallocation of Service.

H.11 Authorized Users

a. This contract is for the use of all federal agencies, wholly-owned government corporations in the Executive Branch of the Federal Government, any establishments in the Legislative and Judicial Branches, mixed ownership government corporations as defined in the Government Corporation Control Act, and any other user authorized by GSA.

b. The FTS2000 program will be mandatory for all Federal agency activities subject to P.L. 89-306. Exceptions may be granted by GSA for agencies' unique or special purpose network requirements. Agencies may appeal a denial of an exemption to OMB.

c. The government has the right to add authorized users as defined in paragraph a. at any time during the term of this contract up to the limits specified in H.5, Maximum Contract Limitation. In assigning users to one of the FTS2000 networks, the Government will attempt to: (1) maintain the percentage allocation of revenue in effect for that contract period (see H.14.2), (2) sustain ubiquitous, nationwide coverage from each contractor, and (3) allocate on a whole agency basis as far as possible.

I.65 52.216-22 Indefinite Quantity (APR 1984)

a. This is an indefinite-quantity contract for the supplies or services specified, and effective for the period stated, in the schedule. The quantities of supplies and services specified in the schedule are estimates only and are not purchased by this contract.

b. Delivery or performance shall be made only as authorized by orders issued in accordance with the ordering clause. The contractor shall furnish to the government, when and if ordered, the supplies or services specified in the schedule up to and including the quantity designated in the schedule as the "maximum." The government shall order at least the quantity of supplies or services designated in the schedule as the "minimum."

c. Except for any limitations on quantities in the Delivery-Order Limitations Clause, or in the schedule, there is no limit on the number of orders that may be issued. The government may issue orders requiring delivery to multiple destinations or performance at multiple locations.

d. Any order issued during the effective period of this contract and not completed within that period shall be completed by the contractor within the time specified in the order. The contract shall govern the contractor's and government's rights and obligations with respect to that order to the same extent as if the order were completed during the contract's effective period; provided, that the contractor shall not be required to make any deliveries under this contract after twelve (12) months after the expiration of this contract.

I.66 552.203-70 Advertising of Award (Alternate I) (APR 1984)

The contractor agrees not to refer to awards in commercial advertising in such a manner as to state or imply that the product or service provided is endorsed or preferred by the federal government or is considered by the government to be superior to other products or services.

AWARD/CONTRACT	1. THIS CONTRACT IS A RATED ORDER UNDER DPAS (15 CFR 350)	RATING	PAGE OF PAGES 1 | 4
2. CONTRACT (Proc. Inst. Ident.) NO. GS00K89AHD0009	3. EFFECTIVE DATE See Item 20C	4. REQUISITION/PURCHASE REQUEST/PROJECT NO.	

5. ISSUED BY CODE
General Services Administration
Information Resources Procurement Division
18th & F Streets, NW, KETF-Rm. G225
Washington, D.C. 20405

6. ADMINISTERED BY (If other than Item 5) CODE

7. NAME AND ADDRESS OF CONTRACTOR (No., street, city, county, State and ZIP Code)
US Sprint Communications Company
8320 Old Court House Road
Tycon I Building, Suite 500
Vienna, VA 22180

8. DELIVERY
☐ FOB ORIGIN ☒ OTHER (See below)

9. DISCOUNT FOR PROMPT PAYMENT
NA

10. SUBMIT INVOICES (4 copies unless otherwise specified) TO THE ADDRESS SHOWN IN ITEM
Item 5

CODE FACILITY CODE

11. SHIP TO/MARK FOR CODE
See Sections C and F

12. PAYMENT WILL BE MADE BY CODE
General Services Administration
Finance Division, P.O. Box 17114
Fort Worth, Texas 76102-0114

13. AUTHORITY FOR USING OTHER THAN FULL AND OPEN COMPETITION
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14. ACCOUNTING AND APPROPRIATION DATA
258X.A00ZA111.B8.25.A26.516.000

15A. ITEM NO.	15B. SUPPLIES/SERVICES	15C. QUANTITY	15D. UNIT	15E. UNIT PRICE	15F. AMOUNT
	FTS2000 Services for Network B				Estimated: [redacted]

15G. TOTAL AMOUNT OF CONTRACT ▶ [redacted]

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X	A	SOLICITATION/CONTRACT FORM		X	I	CONTRACT CLAUSES	
X	B	SUPPLIES OR SERVICES AND PRICES/COSTS				PART III – LIST OF DOCUMENTS, EXHIBITS AND OTHER ATTACH.	
X	C	DESCRIPTION/SPECS./WORK STATEMENT		X	J	LIST OF ATTACHMENTS	
X	D	PACKAGING AND MARKING				PART IV – REPRESENTATIONS AND INSTRUCTIONS	
X	E	INSPECTION AND ACCEPTANCE			K	REPRESENTATIONS, CERTIFICATIONS AND OTHER STATEMENTS OF OFFERORS	
X	F	DELIVERIES OR PERFORMANCE		X			
X	G	CONTRACT ADMINISTRATION DATA			L	INSTRS., CONDS., AND NOTICES TO OFFERORS	
X	H	SPECIAL CONTRACT REQUIREMENTS			M	EVALUATION FACTORS FOR AWARD	

CONTRACTING OFFICER WILL COMPLETE ITEM 17 OR 18 AS APPLICABLE

17. ☒ CONTRACTOR'S NEGOTIATED AGREEMENT (Contractor is required to sign this document and return 3 copies to issuing office.) Contractor agrees to furnish and deliver all items or perform all the services set forth or otherwise identified above and on any continuation sheets for the consideration stated herein. The rights and obligations of the parties to this contract shall be subject to and governed by the following documents: (a) this award/contract, (b) the solicitation, if any, and (c) such provisions, representations, certifications, and specifications, as are attached or incorporated by reference herein. (Attachments are listed herein.)

18. ☐ AWARD (Contractor is not required to sign this document.) Your offer on Solicitation Number ____ including the additions or changes made by you which additions or changes are set forth in full above, is hereby accepted as to the items listed above and on any continuation sheets. This award consummates the contract which consists of the following documents: (a) the Government's solicitation and your offer, and (b) this award/contract. No further contractual document is necessary.

19A. NAME AND TITLE OF SIGNER (Type or print)
DAVID S. GERGACZ
CHIEF, OPERATING OFFICER NETWORK SYSTEMS

20A. NAME OF CONTRACTING OFFICER
Carol A. Hall

19B. NAME OF CONTRACTOR
BY [signature] (Signature of person authorized to sign)

19C. DATE SIGNED 12/7/1988

20B. UNITED STATES OF AMERICA
BY [signature] (Signature of Contracting Officer)

20C. DATE SIGNED

PREVIOUS EDITION UNUSABLE

STANDARD FORM 26 (REV. 4-85)

GSA FAR (48 CFR) 53.214(a)

U.S. GOVERNMENT PRINTING OFFICE 1985 480-275 20021

A. This is a multiyear contract for the implementation and operation of FTS2000 services for Network B. The contract term is 120 months from date of award. The total estimated contract value is [redacted]

B. The Contractor shall perform all services in accordance with:

1. This award/contract and Sections B through J of Request for Proposals No. KET-JW-87-02, as amended in Amendments 1 through 15, as described in Block 16 of this Contract Form,

2. Section K, Representations and Instructions and other Statements of Offerors, as completed by the Contractor on April 28, 1988, and amended on October 12, 1988.

3. The Contractor's proposal dated April 28, 1988 (including the Automated Cost System delivered April 27, 1988), as amended September 1, 1988 (subject: non-tariffed firm fixed price contract offer); October 12, 1988 (BAFO); October 14, 1988 (BAFO); October 21, 1988 (BAFO); October 28, 1988 (3 memoranda plus tapes); November 1, 1988 (one letter); November 7, 1988 (3 letters plus enclosures); November 8, 1988 (5 letters plus enclosures); November 10, 1988 (2 letters); November 11, 1988 (2 letters plus enclosures); November 14, 1988 (7 letters plus enclosures); November 15, 1988 (2 letters); November 17, 1988 (1 letter plus enclosures); November 22, 1988 (1 letter plus enclosures); November 23, 1988 (1 letter); November 29, 1988 (1 letter plus enclosures); and December 2, 1988 (2 letters plus enclosures).

4. The Contractor's Subcontracting Plan for Small Business and Small Disadvantaged Business submitted October 12, 1988, as amended November 30, 1988.

C. The Contractor shall provide a Service Oversight Center facility in accordance with Option 1 under Section C.4.4.

D. In Section H.4, Minimum Dollar Guarantee, the amount of the minimum guarantee is $180,000,000.

E. Pursuant to Section H.4, Minimum Dollar Guarantee, the obligated contract amount is $180,000,000.

F. In Section H.5, Maximum Contract Limitation, the amount of the maximum contract ceiling is $10,000,000,000.

H.0 SPECIAL CONTRACT REQUIREMENTS

H.1 Term and Scope of Contract

This contract is for the procurement of telecommunications services for the FTS2000 program. The period of this contract is 120 months from the date of award. This multiyear contract is issued pursuant to the authorities of P.L. 89-306, the Brooks Act, and Section 201(a) of 40 U.S.C. 481(a), the Federal Property and Administrative Services Act of 1949. The FTS2000 program will be mandatory for all federal agency activities subject to PL 89-306 as implemented by the Federal Information Resources Management Regulations (FIRMR).

H.2 Geographic Area of Contract

The geographic area covered by this solicitation is defined as the 48 contiguous states, the District of Columbia, Alaska, Hawaii, Puerto Rico, Guam, and the U.S. Virgin Islands.

H.3 Type of Contract

This contract is a fixed-price, indefinite-quantity type contract with economic price adjustment and a form of prospective price redetermination, as described in Section H.14, Price Redetermination and Reallocation of Service.

H.4 Minimum Dollar Guarantee

a. The minimum dollar guarantee for this contract shall be_____* which shall be obligated within the first four years of the contract. This guarantee applies only to switched voice service usage, switched voice service features, switched voice service initiation charges, and the service oversight center.

b. The Government is under no obligation to purchase service under this contract beyond the minimum dollar guarantee.

H.5 Maximum Contract Limitation

The maximum contract ceiling for all monies paid to the contractor under this contract shall not exceed _____ _____.**

*The amount of the minimum guarantee shall be identified at time of contract award. The amount shall be $270 million for Network A and $180 million for Network B.

**The amount of the maximum contract ceiling shall be identified at time of contract award. The amount shall be $15 billion for Network A and $10 billion for Network B. This maximum may be reallocated in years 4 and 7 in proportion to any reallocation of services under Section H.14.

d. If there is a greater than 10 percent decrease in the fourth year market price compared to the baseline market price, then a comparison between the market percent decrease and FTS2000 price performance shall be made. If the FTS2000 fourth year price as compared to the FTS2000 baseline price has decreased at a lesser percentage than the market price, then the government shall be granted a general price decrease. The percent decrease shall be equal to 50 percent of the difference between the FTS2000 percent decrease and the market percent decrease. The contractor shall initiate a general price decrease, subject to methodological review and concurrence by the government.

e. Except as they may be subsequently changed under Section H.14, the new prices shall become the baseline prices for the contract and shall be used to calculate the contractor's FTS2000 baseline price at the end of the seventh year.

f. Price adjustments allowed under this clause shall be applied prior to the exercise of Section H.14, Price Redetermination and Reallocation of Service.

H.11 Authorized Users

a. This contract is for the use of all federal agencies, wholly-owned government corporations in the Executive Branch of the Federal Government, any establishments in the Legislative and Judicial Branches, mixed ownership government corporations as defined in the Government Corporation Control Act, and any other user authorized by GSA.

b. The FTS2000 program will be mandatory for all Federal agency activities subject to P.L. 89-306. Exceptions may be granted by GSA for agencies' unique or special purpose network requirements. Agencies may appeal a denial of an exemption to OMB.

c. The government has the right to add authorized users as defined in paragraph a. at any time during the term of this contract up to the limits specified in H.5, Maximum Contract Limitation. In assigning users to one of the FTS2000 networks, the Government will attempt to: (1) maintain the percentage allocation of revenue in effect for that contract period (see H.14.2), (2) sustain ubiquitous, nationwide coverage from each contractor, and (3) allocate on a whole agency basis as far as possible.

I.65 52.216-22 Indefinite Quantity (APR 1984)

a. This is an indefinite-quantity contract for the supplies or services specified, and effective for the period stated, in the schedule. The quantities of supplies and services specified in the schedule are estimates only and are not purchased by this contract.

b. Delivery or performance shall be made only as authorized by orders issued in accordance with the ordering clause. The contractor shall furnish to the government, when and if ordered, the supplies or services specified in the schedule up to and including the quantity designated in the schedule as the "maximum." The government shall order at least the quantity of supplies or services designated in the schedule as the "minimum."

c. Except for any limitations on quantities in the Delivery-Order Limitations Clause, or in the schedule, there is no limit on the number of orders that may be issued. The government may issue orders requiring delivery to multiple destinations or performance at multiple locations.

d. Any order issued during the effective period of this contract and not completed within that period shall be completed by the contractor within the time specified in the order. The contract shall govern the contractor's and government's rights and obligations with respect to that order to the same extent as if the order were completed during the contract's effective period; provided, that the contractor shall not be required to make any deliveries under this contract after twelve (12) months after the expiration of this contract.

I.66 552.203-70 Advertising of Award (Alternate I) (APR 1984)

The contractor agrees not to refer to awards in commercial advertising in such a manner as to state or imply that the product or service provided is endorsed or preferred by the federal government or is considered by the government to be superior to other products or services.

Administrator
General Services Administration
Washington, DC 20405

May 20, 1991

The Honorable Steny H. Hoyer
House of Representatives
Washington, DC 20515

Dear Representative Hoyer:

Thank you for your letter of April 25, 1991, with questions concerning the Federal Telecommunications System 2000 (FTS2000) program. Detailed responses to your questions are provided in the enclosure.

I hope you find the information useful. We are ready to assist you regarding any other questions that you might have on FTS2000.

Sincerely,

for Richard G. Austin
Administrator

Enclosure

Federal Recycling Program Printed on Recycled Paper

Q 1. Do the FTS2000 contracts with AT&T and US Sprint require the government to purchase all long distance telecommunications services under those two contracts regardless of the availability of comparable or superior service at more favorable prices from other vendors?

A 1. No. As a general principle, the FTS2000 contracts are mandatory for all Federal agency activities subject to Pub. L. 89-306 (The Brooks Act) as implemented by the Federal Information Resources Management Regulation (FIRMR) to the extent that the telecommunications services required by the agency are within the scope of the FTS2000 contracts. This principle is augmented by the mandatory use legislation which precludes the expenditure of appropriated funds by Federal agencies to procure services available under the FTS2000 contract unless the service is obtained under the FTS2000 contracts or the agency obtains an exception from the use of FTS2000 on the basis that the specific requirement is unique and cannot be satisfied by the FTS2000 contracts and the agency procurement for such unique requirements would be cost effective and would not adversely affect the cost effectiveness of the FTS2000 program.

While GSA, pursuant to its Brooks Act authority, has mandated the use of the FTS2000 contracts to satisfy long distance telecommunications requirements within the scope of those contracts and Congress, as a consequence of its authority over the use of appropriated funds, has precluded the use of such funds except to obtain such services under the FTS2000 contracts, neither fact creates a legal obligation enforceable by the contractors to require agencies to use the FTS2000 contracts for all long distance services. The rights and obligations of both the Government and the FTS2000 contractors are delineated by the terms of the contracts. These contracts were solicited and awarded as indefinite quantity, indefinite delivery contracts. Under this type of contractual arrangement the Government must only satisfy the minimum contract guarantees contained in the contracts. Moreover, the availability of services under these contracts remains a discretionary determination reserved by GSA. See also response to Question 10.

Attachment D

SWITCHED VOICE SERVICES CHARGES
FTS2000 VS. COMMERCIAL

CHART 1

FTS 2000 VS. COMMERCIAL
DECEMBER 1990 - DECEMBER 1992

		FTS 2000		COMMERCIAL	
	MINUTES	RATES	COST	RATES	COST
FY 1991 *	1,791.8	$. 132	$ 236.41	$ .0814	$ 145.78
FY 1992 **	3,232.0	$ .126	$ 407.23	$ .0814	$ 263.10
FY 1993 ***	590.8	$ .108	$ 63.81	$ .0814	$ 48.09
TOTAL:			$ 707.45		$ 456.97

NOTES:

(All numbers in millions except rates.)

* FY 1991 is the period 12/01/91 through 9/30/91. Source: Office of FTS 2000, Information Technology Fund, FY 1993 Budget Justification ("GSA Justification").

** Source: IRMS FY 1994 Budget Justification and GSA press releases.

*** FT 1993 reflects the period from 10/01/92 - 12/01/92. Source: GSA Report to Congress on the Cost Effectiveness of the FTS 2000 Program ("GSA Report") and GSA press releases.

CHART 2

AGGREGATE COMPARISON FY 1993 PROJECTIONS

SERVICE	FTS2000 PRICE ($M)	COMMERCIAL PRICE ($M)	ANTICIPATED OVERPAYMENT
Voice	$288,192,240	$275,076,480	$13,115,760
Dedicated Lines	$58,900,000	$49,400,000	$9,500,000
Videoconferencing	$2,400,000	$2,100,000	$300,000
TOTAL:	$349,492,240	$326,576,480	$22,915,760

NOTES:

1) Voice rates(s): 295,400,000 monthly minutes (GSA Report) x 12 x .0813 (SK&A) for FTS 2000 and .0776 for commercial. .0776 is the average INTERSTATE SVS rate for Networks A and B ((.0780 + .0771)/2 = .0776).

2) Dedicated Line rates from GSA Report, February 1993 ("GSA Report").

3) Videoconferencing price from GSA Report.

4) Does not include Packet Switched Service and Switched Data Service. GSA lacked sufficient data to support a valid comparison.

CHART 3

TECHNOLOGY ENHANCEMENTS

Mr. COLE. A couple comments. I would agree with Mr. Scott's comment that FTS 2000 should not be all things to all agencies, and that, I think, is the essence of what both MCI and WilTel have been trying to put forth here. There are opportunities and requirements why an agency should go outside the bounds of the FTS 2000.

One of those has been talked about in terms of technology. The others are in terms of enhancements and the others are in terms of—both Mr. Scott and Lombardi made comments with regard to protest.

A specific example is that the DS-3, which is a large capacity pipe, was not included in the original FTS 2000 definition on services. It was tried to be included in terms of the FTS 2000 and WilTel was one of those that protested that, because that service was available, it was commercially available at the time of the FTS 2000, selected not to be included.

We did not think that one should uniformly absorb that into the FTS 2000. That is a situation where that should have been competed and we were upheld by the protest board in terms of that respect.

One other comment that was made, that was with regard to enhancements, such as spring relay. I believe Mr. Lombardi made the comment that that was not—AT&T was on stream in technology in terms of services it offered to the FTS 2000 users. Frame relay was embryonic. It is not embryonic. It has been in the commercial marketplace for two years now.

There are a number of substantial commercial users using that, but no agency within the FTS 2000 venue is using frame relay.

Mr. VISCLOSKY. Mr. Istook.

Mr. ISTOOK. Thank you. As somebody noted, I got here just when you were here before and I come back and I certainly hope——

Mr. CRANE. I will repeat my testimony for you if you would like me to, sir.

Mr. ISTOOK. We have the written testimony. I regret I missed the chance to question the gentlemen from AT&T and Sprint. Timing of meetings makes it impossible to be everywhere that you want to be, and I am not snubbing anyone that is involved in this.

I did want to ask Mr. Cole about part of your testimony. You mentioned that WilTel contends of course that FTS 2000 is limiting the technology that is available to the government. Can you provide some specifics on instances where there has been a limitation of the technology that is available and is actually used?

Mr. COLE. Yes, I can, follow up in terms of my comment earlier, with regard to frame relay, which is a fast packet cell relay, more efficient way of transporting data.

When we first introduced the product two years ago, after our initial introduction, we had discussions with the Bureau of Census. We did a test with the Bureau of Census and the people there were extremely excited in terms of what it could do for them in terms of service and how that particular technology was applicable to their needs.

This was outside the scope of FTS 2000, so they had, as has been stated earlier, the opportunity to go to GSA and ask for an exemption, and in so doing, GSA, it is my understanding GSA informed them that they were considering bringing FTS—bringing frame relay into the FTS 2000 venue and as such, would be forced to, if they went with WilTel and provided that service, would be forced then to take it off WilTel and move it to one of the two carriers, FTS 2000 carriers when they did offer it.

Two problems with that. One is you force an agency to change when it doesn't necessarily need to. The second is, you give an opportunity for one of those two vendors to offer a service that may not be necessarily a competitive price. All I ask that when that opportunity comes up, that we get a chance to bid on that service again, and that is a situation where the FTS 2000 mandatory use would have restricted, and in fact even without, it has restricted the ability of that particular agency to use a new service in a more efficient manner.

EFFECT ON CONTRACT OF CHANGES

Mr. ISTOOK. Let me ask about some general areas, and I am sorry I didn't get to pose this same question to the AT&T and Sprint people, but they may pick up on it and want to provide something in writing about it later.

I would like some comment about the fact that you have such a rapid turnover of technology—it is not just telecommunications. This is the case in the computer field, and in all the information age industries. Because of that, no sooner is anything installed than it is already obsolete.

Now, I would like to have the benefit of your thinking on what does this mean for an entity such as the U.S. Government, which is a large scale consumer. What are the policy implications and what should our policy be regarding long-term contracts with any sort of vendor in this area, because you have to balance not only the cutting edge technology that is available the more frequently you dip into the market, but you also have to consider the administrative expense of being constantly involved in a process of evaluation and reevaluation, not only of your own operations, but of what is available out there in the market.

So I am interested in comments about how long we should be having contractual relations with particular vendors considering these factors.

Mr. COLE. I think both Jonathan and myself can make comments regarding that today and I will reinforce those. That is, if you use as a surrogate, as an example, the commercial marketplace, you take the large commercial users today are giving contracts two, three, possibly as long as five years.

Most of them are in the two to three year range for that very reason. They have found that to be the proper balance between the cost-effectiveness of the contract, the change in technology and the management function. So I think if you use that as an example, it gives you an idea of where, at least, we think it ought to be.

Mr. CRANE. I think that it all depends on the nature of the contract. If the contract has the flexibilities in it to recognize techno-

logical advancements and also changes in the marketplace relative to price and functionality and so forth, that your relationships in a contract can be lengthy.

However, what most people have found is that no one vendor can provide all of the capabilities that are available in the marketplace. Technologies are literally being developed in garages, as is the case of Apple computer, and there are numerous examples of that nature.

So what really has to happen is you have to recognize the speed at which technology is moving. Therefore, I would argue you shorten the length of your contracts because there is no one who can have vision for a 10-year period relative to the progression of the technology in our industry in particular.

No one would have predicted, by the way, when, in 1988 this award was made, that prices would have declined as significantly as they have now, that the technologies that have been introduced would have been introduced at this point, and more importantly, no one would have predicted from 1993 going forward that prices would have continued to decline precipitously because of some rulings, and in particular, 800-number portability.

In summary, long-term contracts, ten years in nature, are not a wise decision. There is no commercial entity doing those kinds of arrangements. Most of them, as Mr. Cole has stated, are doing them on two, three, some renewals that might last as long as five, but in those procurements are verbiage that allows for getting out of the contract for technological reasons, for getting prices constantly reduced if in fact the prices fall out of the marketplace equivalents.

So you must protect yourself in those kinds of procurements, even in a five-year program.

TECHNOLOGY ENHANCEMENTS AND COST

Mr. ISTOOK. When you talk about change of technology, I have always wondered on the example of Apple computer, being invented in a garage and who knows what is going on in the garages of America right now. I have often wondered where the country would be if we just enforced the zoning laws.

I would be interested, knowing the multitude of services, if either of you gentlemen, your companies, or any of the other companies have prepared any sort of matrix that actually delineates specific equipment, specific services, and what the opinions are of your companies on what the government is paying and what it might have paid for all of these things, not just in one or two points, but an actual matrix.

Has anyone prepared something like that that might be a visual comparison of these issues?

Mr. CRANE. We prepared in our testimony a comparative, as best we could put forth, the analysis based on publicly available information. We put together a rate structure comparative in terms of what was paid and what could have been paid based on a comparable commercial tariff rate and demonstrated on a graph savings that would have been forthcoming to the government had, in fact,

the prices been more closely tied to the best available commercial rates.

I think the difficulty is the forward prediction. The difficulty of being able to forwardly predict the pricing structure—thank you. I had mentioned this in earlier.

Mr. ISTOOK. Sure. Right. I understand. I was looking for similar things, not just from MCI but from different people's perspectives too.

Mr. CRANE. I can't speak for the other participants but I would presume they would be all be willing to provide you with that information so you could get a good cross-section. I think the difficulty for all of us is the forward projection. No one could have anticipated the garage shop effort on the two disgruntled HP employees who decided they could do something faster and better. Therefore, I don't think anybody can accurately predict where technology is going to take us and who is going to have the next breakthrough and what is that going to do to the pricing and features and process that you are going to want to procure.

That is what our position is. There has got to be the flexibility to avail yourself of those capabilities for the government. Should not the government be a leader in terms of its capabilities and how it is managing itself and its interfacing to its constituents?

And as such, I think that no entities can really provide that overall encompassing technology leadership or pricing leadership.

Mr. ISTOOK. Realizing of course that there are certain savings that you can achieve when you have a long-term contract and a commitment. Because you don't have to market, you don't have to evaluate as frequently, and you both have certain savings, what is basically in percentage or dollar terms the marketing expenses that are being put out by the telecommunications companies right now?

Can you give us some idea of how expensive that is in your operations?

Mr. CRANE. Well, if you look at the overall expense budgets, the marketing costs, in particular, advertising and the maintenance of the sales organization and all of those, we put out figures. We would be glad to provide you those off of our annual reports and quarterly financial figures that we could show you specifically what those percentages are.

Mr. ISTOOK. That would give some insight and I would appreciate if you could provide that.

[The information was not provided in time for printing of this hearing.]

Mr. COLE. I would comment on it except we figured out, one, that we think our advertising budget, AT&T spends that by 12:00 noon on January 1st.

Mr. ISTOOK. You may want to do it in percentage terms. I understand you are a little bit smaller than they are, certainly.

Mr. COLE. Congressman, I would like one follow-up comment in terms of the last question.

Mr. ISTOOK. Please.

Mr. COLE. On the pricing issues, we have not done that either in terms of all the facilities, but, for example, one of our concerns is that in the Snavely/King study, which the GSA used in their anal-

ysis, we did a lot—we spent a lot of time working with the Snavely/King people and providing them some prices which at that point in time were not public because we were not required to file tariffs, but we provided them lots of prices, as did some of the other small carriers.

Our reading of that report, to the best of our knowledge, none of that information was used in their price analysis. That concerns us because typically the smaller carriers had been on the leading edge of the price decline, and therefore I think that it detracts from the quality of that study in terms of not including those leading edge price indicators.

NEW SERVICE CAPABILITY AND REQUIREMENTS

Mr. ISTOOK. Final question. How would you gentlemen respond to an expression that might say, well, someone else carries the burden of most services and perhaps others are just trying to skim the cream, take the services that are more expensive to provide and take advantage of a chance to underbid those without having to undertake more capital intensive or manpower intensive portions of the service?

I would just be interested in your comment on that.

Mr. CRANE. I think, again, it goes back to the opportunity we described earlier. If, in fact, an agency saw a need technologically or from a price standpoint that it had to go outside of FTS 2000, the argument is it should have that right.

The question is, should the participants, Sprint and AT&T be penalized in that environment, if I understood your question, from the standpoint of they have put a lot of money, time, energy and resources into providing this network. In fact, we are not talking about network incursion. They are into those kinds of service.

We are talking about new services or new capabilities that are required, and my sense is that that is not coming in after the fact and skimming off pieces of the cream, as you describe it, but rather providing services that, in fact, the government needs, and I think you would share the belief that we should not keep those agencies from getting those services, making those improvements, providing those capabilities, lowering their costs, if, in fact, the FTS 2000 participants could not do that for them.

In other words, they would be restrained from having that opportunity. I don't think that is the way that the government would want to operate its procurement system. So that would be my answer. I would expect the two participants who have the FTS 2000 contract to be able to provide the best amount of services that are typically required.

Our argument has been that our services and our pricing opportunities should be brought forth and those should be either enhanced in the FTS 2000 or agencies should be given the opportunity to go outside to seek those other services and, again, I would cite the FAA LINCS project where it was determined that that was a requirement to do so.

Mr. COLE. I will reiterate what Mr. Crane said is that I don't think it is cream skimming. The two things I have talked about with respect to WilTel, the DTS and the frame relay service, were

not part of the FTS 2000. They are different services, unique services, therefore it is a different application and not cream skimming.

Mr. ISTOOK. Thank you. Thank you very much for your time. Thank you, Mr. Chairman.

MANDATORY USE AND THE ACQUISITION OF NEW SERVICES

Mr. VISCLOSKY. Following up on Mr. Istook's question in your last response, Mr. Crane, are you saying that MCI is simply looking to compete for business or to acquire business for services that are not currently provided under the contract?

Mr. CRANE. What our position has been is that we are not trying to disrupt or take apart the FTS 2000 decision. That decision has been made. Our argument is within that environment, is this additional demand, the mandatory use clause.

We see in the GSA their capability to prescribe sets of service and how those agencies would procure services. We don't understand the need for the additional emphatic mandatory use because we believe that will keep agencies from having the choice for either new technologies, new services, or pricing that is advantageous to the current pricing being offered. We believe that those agencies should have that right and that ability to procure services under that environment.

They can petition the GSA, ask for that ability, and the GSA can determine that, yes, in fact, they have a case. They therefore can go forth and procure services outside the FTS 2000. That has been our consistent argument on that subject.

Mr. VISCLOSKY. Isn't the mandatory issue relative to the services that are encompassed in the contract?

Mr. CRANE. Yes.

Mr. VISCLOSKY. Why would that exclude you from other types of activities?

Mr. CRANE. So far what has happened is the mandatory use environment has created a sense on part of the agencies that only the FTS 2000 can be used as a procurement entity and therefore you are obligated to purchase under that arena. Therefore, they are relegated to purchasing services exclusively from the participants, AT&T and Sprint.

Our argument would be that those participants not be exclusively used and in fact there are an array of services that should be able to be procured outside of the current vendors that are provided.

Mr. ISTOOK. Just a quick follow-up on that.

Mr. VISCLOSKY. Sure.

Mr. ISTOOK. Are you saying that they are not legally obligated, either by the contract or by the terms in the statutory language to deal with AT&T and Sprint on those, but they feel some degree of compulsion which predisposes them? I am talking about, this is a practice, not a requirement that you see happening.

Mr. CRANE. The mandatory use basically makes it a practice. What we are saying is there should be that option that if the agencies seek some other avenue, that they be allowed to do that. That

is why we want the mandatory use clause removed, so that there are those options, freely understood.

Mr. ISTOOK. Has there been an effort to educate these people, to tell them that neither the contract nor the mandatory use provisions require you to use these particular vendors for these extra contractual services? Has there been an education effort? Do they not understand that?

Mr. CRANE. We have had an ongoing education effort to try to participate here, but I think you heard from Mr. Scott earlier that he clearly believes that mandatory use is vital to the way in which he wants to operate the government communications.

Mr. ISTOOK. Yes, but I thought in answer to Mr. Visclosky's question that you were saying that they were actually taking services which are not covered by the mandatory use and which are not covered by the contract itself and yet operating under the belief that they were required to deal with those vendors, when, in fact, they are not.

Mr. CRANE. This is the whole issue that Mr. Cole brought up earlier in terms of these enhanced services that sit outside the scope of the original FTS procurement process, and therefore these services should in fact be available for bid by other entities besides the two original participants.

Mr. ISTOOK. Thank you. Thank you, Mr. Chairman.

Mr. VISCLOSKY. If I understand where we are, and we have the universe of Federal services, and the universe of FTS 2000, your contention today is that you don't want to reopen the process for this, that you will live with the consequences, but that you feel that because of the perception that for these services out here that are not specifically covered under the contract, that you are barred by perception from bidding for that work?

Mr. CRANE. I will let you go first on the answer, and I want to speak to that.

Mr. COLE. The part about perception and practice as far as my comment earlier, the Census Bureau statement, that led those people to believe that it would take an expansion of this FTS 2000 package of services to include frame relay and therefore would force those people to, if they chose to go with WilTel on that service, to change in midstream back, which, you know, creates a convoluted mess and people are not going to want to do that.

So that is—part of that answer there is yes. I mean, that ought to be opened up for competitive bidding to any and all vendors who can supply the services that are defined up there. Yes. Mr. Crane is going to answer.

Mr. CRANE. Right. Now I will go back to the original piece that you examined. No, we are not willing to give up the opportunity to provide the ability for service that exist in that budget today that are housed under FTS 2000.

We would argue that if we offered service capabilities, feature function capability, price—or a pricing schedule that was advantageous to that agency to go outside of the FTS 2000 procurement, under which today they are relegated, then we should argue they should have that right as well.

So let's not cross that section of the circle out.

Mr. VISCLOSKY. I just wanted to make sure I understood.

Mr. CRANE. We want an opportunity to compete for that section as well and it should be on the basis of the descriptions I gave. Service, functionality, pricing. Any of those elements should be available to that agency and they should have the right to go outside.

The GSA, in their management approach to the contract, manages by minimums. That is how it is done in the commercial market today. Companies are obligated to extend a certain minimum level of communications with a particular winning vendor.

When they go above that minimum level, they are free to take those services and give them to any participant they so choose, as long as they are keeping the minimums of the obligation of the contract, and that is how the commercial market manages minimum commitments for pricing and for when they give terms associated with those volumes. That is how they procure prices favorable to them.

Mr. COLE. One follow-up point. That is our concern that the GSA is trying to move the line here.

Mr. VISCLOSKY. Gentlemen, thank you very much. The Chair apologizes. I have an 11 o'clock meeting that will not take more than 10 minutes, so I would like to recess for 10 minutes.

I am going to return to then call Mr. Lombardi from AT&T and Mr. Rooney from Sprint and then we will follow up with the General Accounting Office. I apologize.

(Recess.)

INTRODUCTION OF MR. LOMBARDI OF AT&T AND MR. ROONEY OF SPRINT

Mr. VISCLOSKY. We will ask Mr. Lombardi from AT&T and Mr. Rooney from Sprint to come forward please. I will let you proceed as you will.

SUMMARY STATEMENT OF MR. LOMBARDI

Mr. LOMBARDI. I would be glad to answer questions. A couple of thoughts based on what I have heard over the last few minutes. I find myself in a unique situation where, to a certain degree, I agree with Mr. Crane when he described the process of the length of a contract that should be entered into with customers.

It does depend upon the requirements of the customers and on the terms and conditions of the contract. That describes exactly what FTS 2000 is. FTS 2000 is a unique contract that recognizes that, given the requirements of the government which are quite extensive, and given its length of time, that it has within it a consistent set of things that are necessary to make it always viable, the service has the capability, the need for technology refreshment.

Secondly, taking the unique aspect of having two vendors support the program with their contracts and therefore having recompetition in two periods during the life of the contract, very unique in ensuring that at least from a price standpoint, there is that level of recompetition, and finally, a contract that has embedded in it a set of terms that represent a quarterly review of prices such that the government always knows it is getting better than the best available commercial prices.

If there was ever a set of conditions that surrounded a fairly long-term contract, that would be a set of conditions that I think frankly I would want to have, and I think the government has a good deal on that.

I think that is an important point to understand, that this is a unique contract with unique conditions associated with it. Chris, do you want to add anything?

SUMMARY STATEMENT OF MR. ROONEY

Mr. ROONEY. Maybe back up for a minute. In all of the discussion we have had today about 1992, I think we have perhaps lost track for a minute of the original procurement under the U.S. procurement law that we as bidders were all bound by originally.

We were given a requirement by the U.S. Government that was probably well ahead of its time, was extremely stringent. Today we are hearing of one new technology or two new technologies. At the time that we were given the request for proposal by the government, there was a requirement that, in order to bid any service, you must bid all six services under the contract.

You must be prepared to provide those six services ubiquitously across the United States and territories without exception. You had to provide that full functionality without question and you had to agree to no price increases regardless of circumstance over the 10-year procurement. In addition, you had to agree to technological advancements as they became commonly available in the marketplace.

In return for that, there was a 10-year procurement and there was a great deal of business which would be delivered under mandatory use to those two bidders. That was the original procurement. That is still the law we are delivering under and are bound by, sir. So that I think it is important that we look at the original provision and say what are these folks talking about?

Everyone had an opportunity to bid in a full and open procurement and that opportunity existed in 1988. That opportunity will exist again in 1998. I think the committee has been left with a perception that there are no procurements on the street and that there is no government business.

As I listened to Mr. Crane, and I had an opportunity to read his annual report recently—I note that he won a contract from the FAA to provide the air traffic control system under LINKS. That is heralded as a $1 billion, 10-year undertaking. If I understand the testimony today, Mr. Crane would see voluntarily perhaps putting that up for rebid in year three, since he doesn't believe in long-term contracts. That would be the understanding I have from the testimony.

So I don't think there is a perception that bars anyone from bidding any government procurement that is legitimately put on the street. This was a legitimate procurement. It was won by AT&T and Sprint. We are performing in accordance with the contract. That contract has the flexibility for technological enhancements.

Mr. Scott alluded to over 200 enhancements. There are another 25 to 50 probably in the pipeline today. The technology is the best available in the industry. So the technologies discussed as potential

additions this morning represent less than one-half of 1 percent of the entire telecommunications business in the country; so they are very small use topics.

COST-EFFECTIVENESS OF FTS-2000

Mr. LOMBARDI. Mr. Cole also stated with regard to prices that he made available to Snavely and King, and by the way, Snavely and King was the group commissioned by the government to assess cost effectiveness of FTS 2000. I think it is a fairly resounding affirmation of the cost effectiveness of the program.

I am not sure why they didn't use the prices that he offered them. It may have had something to do with the fact that those prices may not have been real prices, either. It is not clear to me why they wouldn't have used them other than the fact that perhaps they didn't represent the type of commitment that a company like Will Tell was ready to make at that time. What all carriers should be doing is filing prices with the FCC so that the government and every other customer gets the benefit of all that capability.

The point that I want to make is that independent of what we are saying and independent of what GSA is saying, there have been groups that have assessed the cost effectiveness of this program and its competitiveness and believe it is the right thing for the government.

An underlying aspect of that is the mandatory use clause. I think to risk changing something that has been as successful as it was when we know that when mandatory use wasn't in play back in the pre-FTS 2000 environment, the ability of GSA to do the things they can do under the Brooks Act was clearly unsuccessful, is taking a risk that could destroy something very good that exists for the government today.

ENHANCEMENT OF TECHNOLOGY

Mr. ROONEY. There was loosely discussed earlier the evolution of garage technology, and evolution of garage technology. I would submit that we are required under this contract, FTS 2000 vendors and GSA, to guarantee performance.

There is no place in these contracts and undertakings with the government where we are serving the tax collection system, the Social Security Administration systems for garage technology. This is a world for proven technology to deliver the highest quality service available in the world today. These applications are a lifeline for the government and for the taxpayers the government is trying to serve.

I feel we are guaranteeing a level of performance and bringing technology to the table as it is commonly available in the marketplace.

DEPARTMENT OF DEFENSE CONTRACT

Mr. VISCLOSKY. One question somewhat afield. Mr. Darden and I both wear another hat on the committee, Defense. GSA has indicated that a large amount of government contractual work is in DOD.

Could you describe briefly the contractual work that AT&T does at DOD?

Mr. LOMBARDI. I will make sure you understand that I do not know the extent of all the business that DOD does with regard to long distance telecommunications services. I know that we hold a fairly large contract called the DCBM contract. It is fundamentally for the Department of Defense command and control requirements.

And that contract has been in existence for about seven years and I believe will terminate in the next two or three years. And as we speak, the Department of Defense is undertaking a fairly massive assessment of what their procurement requirements will be in terms of follow-on business.

But it is more the scope of the business that they are attempting to assess going forward is much bigger than just the single contract that we have. We hold one of many contracts the DOD uses for their defense switch network and their defense information systems network.

INTRODUCTION OF MR. SCOTT OF GSA

Mr. VISCLOSKY. Thank you very much. Mr. Scott, I would like to recall you for a few minutes, please.

Mr. Scott, you have heard the additional testimony of the four principals. I would invite you for the record to make any additional comments or observations you care to at this time.

PROCUREMENT PROCESS

Mr. SCOTT. Thank you very much. I wanted to make one point in the way of clarification about the procurement process. You asked me questions about that and I heard some things after I sat. I would like to make some observations from a agency user perspective and from a GSA oversight perspective.

The procurement process for services of these types is very complex and very lengthy. As I said to you awhile ago, attempting a procurement of something like FTS 2000 in my estimation takes three or four years. I believe that is a fair estimate. I think that is supported generally by our past experience.

The other thing is transition today from one vendor service to another is a lengthy and difficult process and constant transition would be very expensive and very interruptive to the agency services. As I said to you earlier, as we go to replace whatever we use to replace FTS 2000, I estimate it will take two years to transition.

We would have to have a contract in place two years prior to the time the FTS 2000 contract runs out in order to accomplish the transition. So the idea that you could run a new competition every two or three or four years on something of the magnitude of FTS 2000 in my opinion is not practical.

We will take up those issues as we look at how do we replace FTS 2000. The difficulty is how do you keep the prices where they ought to be and how do you keep it technically current? Those are difficult, but not insurmountable. When you contrast that within the problems of a fragmented system buying services here, there and everywhere, and running competitions every two or three years, I come down on the side of a long-term contract.

I wanted to offer those remarks as I felt some clarification was needed.

PERCEPTION ON ABILITY TO USE OTHER VENDORS

Mr. VISCLOSKY. In terms of the diagram that has been drawn, what about the suggestion that the perception of the agencies have now extended past the terms of the contract, the specific terms of the contracts and they feel constrained from using other vendors for services not covered?

Mr. SCOTT. I don't believe it is true. I head the Interagency Management Council which has a membership of the leaders of the government telecommunications and information technology business, and all the department heads are represented there. We meet monthly. We discuss issues of this type constantly. We have examples.

The Treasury communications system. That system is going to be across treasury systems to serve Customs, Secret Service and others. They wanted technology that we do not currently offer on FTS 2000. They came and said we have a problem. We require services you don't have on FTS 2000. We gave them the exception to do a Treasury communication system. That is in the process of being procured, a long process, but it is going on.

There are many examples where agencies have come and asked for services which we don't offer on FTS 2000 and we don't hold them up for services. Any allegation that we are doing that is untrue, and my assessment is the agencies understand that when they require technology that is not on FTS 2000, they are permitted to obtain it.

EXTENSION IN THE SCOPE OF THE CONTRACT

Mr. VISCLOSKY. What about the assertion that, through interpretation, GSA has extended the scope of the contract?

Mr. SCOTT. I don't think that is true. I will furnish the appropriate contract clause for the record.

I think you will agree that it clearly covers certain enhancements on contracts.

[The information follows:]

C.0 DESCRIPTION/SPECIFICATIONS/WORK STATEMENT

C.1 Overview

C.1.1 Introduction

This contract is for telecommunications services for the FTS2000 program. The FTS2000 program will replace the existing intercity switched voice Federal Telecommunications System (FTS) and provide additional and enhanced telecommunications capabilities to the Federal Government. The FTS2000 program will be mandatory for all federal agency activities subject to P.L.89-306, as implemented by the Federal Information Resources Management Regulation (FIRMR).

It is GSA's intent that the services described herein be obtained from two networks (A and B), similar in all aspects except for size, and each provided by a different contractor over the ten-year contract life. Service, feature, technical, management, and operations requirements contained within this solicitation are equally applicable to each network, except for the traffic volumes provided in Section J, or as specifically noted. The requirements for each network have been derived from an approximate 60%/40% division of FTS voice grade traffic as of February, 1986, with the traffic allocated on a whole agency basis. The 60% allocation has been assigned to Network A, and the 40% allocation has been assigned to Network B. As allocated, each network provides ubiquitous, nationwide coverage. Each offeror is required to submit a proposal for meeting the requirements for both Network A and Network B.

Following award, each contractor shall be responsible for all aspects of the implementation and operation of its FTS2000 services over the 10-year life of the contract.

This solicitation also includes the requirement for each contractor to provide a service oversight center for its network. The center may be in space provided by each contractor, or in space provided by one FTS2000 contractor. If the latter, even if collocated, the centers shall be kept physically separate for proprietary reasons. The centers will be staffed by government personnel, and their designated representatives, for purposes of FTS2000 oversight management and administration.

C.1.2 Background

The present FTS is the largest switched private telecommunications network in the world. It provides intercity services, primarily voice and low-speed data, to over 1,300 government locations throughout the United States, Puerto Rico, Guam, and the U.S. Virgin Islands. The current system is primarily analog and limits the ability of the government to take advantage of recent technological advances associated with digital systems. Modern telecommunications technology today provides for the cost-effective delivery of services such as high-speed circuit switched data, packet switched data, video transmission, and integrated or shared use service capabilities that are in increasing demand by federal agencies. The government believes the adoption of these new and enhanced services and capabilities will result in lower telecommunications costs to the government and improved employee productivity.

The government plans to ensure continuing cost reductions for FTS2000 services by establishing conditions for price redetermination and service reallocation in the fourth and seventh years of the contract.

C.1.3 Objectives

The FTS2000 procurement is designed to meet the following government objectives:

a. To obtain a comprehensive set of telecommunications services

b. To obtain telecommunications services through two prime service contractors responsible for providing all services and network management

c. To accurately forecast telecommunications costs over a 10-year contract period

d. To meet government requirements for National Security and Emergency Preparedness (NSEP)

e. To adopt an architecture that will provide a smooth transition to an Integrated Services Digital Network (ISDN) environment when it becomes economically attractive

f. To encourage competition between the two FTS2000 services contractors as a means of ensuring continued improvements in FTS2000 services and prices

Some specific requirements to meet these objectives are described below.

C.1.3.1 Telecommunications Services. The government intends to procure the following six telecommunications services: switched voice service, switched data service, switched digital integrated service, packet switched service, video transmission service, and dedicated transmission service. This solicitation describes these services, as well as specific features of these services that the government is likely to procure. It is the government's intent that these services conform as closely as possible with those offered commercially.

All services, except switched digital integrated services, shall be offered with 12 months of contract award but not necessary in all areas. The availability of services to government locations shall be as indicated by the date that is provided with each access area pricing table. This date indicates the month and year that the table becomes effective for use and service is available, if desired, to all locations within the access area. Switched digital integrated service is not required to be available in the first 12 months after contract award but shall be made available at some time during the life of the contract. Once an access area availability date is quoted by the contractor, service may be ordered by the government to be effective on or after that date. If the service is ordered by the government but not available as quoted, the service must be provided by other means at the same price as would have been charged if the service had been available.

C.1.3.2 The Role of the Contractors. It shall be the responsibility of each contractor to provide and manage the delivery of services. In addition, the contractor shall coordinate all activities with its subcontractors providing services to or as part of FTS2000. The contractor is encouraged to use

H.14.7 Determination Not to Redetermine or Reallocate

The government reserves the right not to conduct price redetermination and service reallocation if an analysis determines that it is not in the government's best interest.

H.14.8 Continuation of Contract

It is the government's intent to maintain ongoing service from the two contractors through the ten-year life of the FTS2000 contracts. However, the Government reserves the right to reallocate 100% of the FTS2000 requirements to a single contractor if it is in the government's best interest to do so.

H.15 Protection of Pricing Information

The government will take the necessary and usual steps to maintain the confidentiality of any pricing information submitted by the offeror prior to award of this contract. The government will also attempt to maintain the confidentiality of pricing information submitted by the contractor after award of this contract. However, the offeror/contractor is advised that pricing information may be determined to be releaseable upon request under the Freedom of Information Act, 5 U.S.C. 552, and other applicable statutes and regulations.

H.16 Service Improvements

a. After contract award, the Government may solicit, and the Contractor is encouraged to propose independently, improvements to the services, features, or other requirements of the contract. These improvements may be proposed to save money, to improve performance, or for any other purpose which presents a service advantage to the Government. As part of the proposed changes, the Contractor shall submit a price proposal to the Contracting Officer for evaluation. Those proposed service improvements that are acceptable to the government will be processed as modifications to the contract.

b. As a minimum, the following information shall be submitted by the Contractor with each proposal:

   1. A description of the difference between the existing contract requirement and the proposed change, and the comparative advantages and disadvantages of each;

   2. Itemized requirements of the contract which must be changed if the proposal is adopted, and the proposed revision to the contract for each such change;

   3. An estimate of the changes in performance and cost, if any, that will result from adoption of the proposal;

4. An evaluation of the effects that the proposed changes would have on collateral costs to the government, such as Government-furnished property costs, costs of related items, and costs of maintenance, operation and conversion (including Government premise equipment); and

5. A statement of the time by which the contract modification adopting the proposal must be issued so as to obtain the maximum benefits of the changes during the remainder of this contract including supporting rationale; and

6. Any effect on the contract completion time or delivery schedule shall be identified.

c. The Government will not be liable for proposal preparation costs or any delay in acting upon any proposal submitted pursuant to this clause. The Contractor has the right to withdraw, in whole or in part, any proposal not accepted by the Government within the period specified in the proposal. The decision of the Contracting Officer as to the acceptance of any such proposal under this contract is final and not subject to the "Disputes" clause of this contract.

d. The Contracting Officer may accept any proposal submitted pursuant to this clause by giving the Contractor written notice thereof. This written notice will be given by issuance of a modification to this contract. Unless and until a modification is executed to incorporate a proposal under this contract, the Contractor shall remain obligated to perform in accordance with the requirements, terms and conditions of the existing contract.

e. If a proposal submitted pursuant to this clause is accepted and applied to this contract, the equitable adjustment increasing or decreasing the contract price shall be in accordance with the procedures of the "Changes" clause. The resulting contract modification will state that it is made pursuant to this clause.

H.17 Fixed Price Tariff(s)

a. This provision shall apply only if this contract is based in whole or in part on a fixed price tariff(s).

b. In the event that the fixed-price tariff(s) upon which this contract is in whole or in part based, as filed with the Federal Communications Commission, is inconsistent with or supplemental to the terms and conditions of this contract, in such a manner that it impedes the Contractor's ability to comply with the contract as awarded, the Contracting Officer shall consider whether or not a termination for default should be issued under the Disputes Clause.

Mr. VISCLOSKY. Anything else?

Mr. SCOTT. Thank you very much.

Mr. VISCLOSKY. We have some questions we would like to have answered for the record.

[Additional questions submitted for the record by the Committee and the answers thereto follow:]

MANDATORY USE LANGUAGE

Background. The FTS 2000 contract was awarded by GSA in 1988 to two vendors: AT&T and Sprint. Since 1989, this Committee has included a provision mandating Federal agency use of the FTS 2000 system. On March 1 of this year, GSA reported to Congress that the prices paid under the FTS 2000 contract, in aggregate, were lower than the commercially available prices.

Question. Considering your recent study which claims that FTS 2000 is less expensive than commercially available rates, why has the Administration requested the inclusion of the mandatory use provision in the fiscal year 1994 budget request?

Answer. Mandatory use ensures that the benefits of the FTS 2000 can be realized by providing economies of scale for service pricing, even for small agencies, by creating price stability for user agencies and by minimizing contractor risk.

The effect of congressional enactment of mandatory use in annual appropriations legislation has been to provide critical support for the Administrator in mandating full use of FTS 2000 and thus ensuring its success.

Question. While the Administration is requesting the provision be retained in 1994, OMB acknowledges that GSA has the authority to mandate use of FTS 2000 through the regulatory process. Why is GSA asking the Committee to legally mandate the use of FTS 2000, when GSA can regulate its use?

Answer. GSA has possessed the requisite authority since enactment of the Brooks Act to require agencies to use FTS 2000. Some of the reasons underlying Congress' decision to enact the original mandatory use statute in the annual appropriations statute exist today. Annual appropriations statutes containing mandatory use language provides a signal of congressional support for the program.

Question. What would be the effect on the contracts or the Price Caps if the mandatory use provisions were not included in the fiscal year 1994 Appropriations Act?

Answer. If Congress did not reaffirm its support for mandatory use, interested parties could argue, that given the history of annual reenactment of the mandatory use language, failure to continue to do so reflects the withdrawal of Congressional support for the FTS 2000 program. This could adversely affect GSA's ability to continue to require use of FTS 2000.

COST EFFECTIVENESS STUDY: VALUE OF UNIQUE GOVERNMENT REQUIREMENTS

Background. GSA's March 1 Cost Effectiveness Study states that, for a majority of the FTS 2000 services—Switched Voice Service and Dedicated Transmission Service—the Government's price is greater than or equal to the commercial price. However, when the value of the Government unique requirements are added to the commercial price, the FTS 2000 prices are at least four percent less.

Question. What are these "Unique Government Requirements" and what is the basis for determining the value of these requirements?

Answer. FTS 2000 has particular requirements that are not generally provided under commercial contracts. These unique Government requirements increase the value of FTS 2000 services relative to equivalent services. They can be grouped under five major headings: business requirements, service feature requirements, National Security and Emergency Preparedness (NSEP) requirements, system requirements and additional personnel.

The business requirements of the FTS 2000 contracts were designed to reduce the Government's exposure to unexpected price increases. At the same time, these requirements increase the contractor's risk. These requirements include 10 year firm fixed prices, which preclude the contractors from charging prices higher than those quoted in their best and final offers. With firm fixed prices, any increases in local exchange carrier access charges would have to be absorbed by the contractors. Similarly, the Price Redetermination mechanism requires continuing recompetition between the two FTS 2000 contractors in years four and seven of the contracts to

ensure that the Government receives the best possible prices throughout the life of the contracts. In the same vein, the Publicly Available Price Caps (PAPCap) mechanism was designed to ensure that FTS 2000 prices are lower than the best publicly available commercial prices. The Service Reallocation feature allows the Government to reallocate service at anytime over the life of the contract. Finally the FTS 2000 contracts have no contractual termination liability.

Service requirements represent features which are not normally part of tariffed commercial offerings. Examples include: intercept, which provides for the automatic answering of all uncompleted calls with an announcement explaining the reason the call could not be completed; automatic number identification (ANI), which creates a record of the originating number of each call; credit adjustments, which provide for prorating refunds for calls that encounter dialing difficulties; the provision of certain interface equipment such as channel banks; and grade of service which requires the contractors to maintain a high level of quality.

NSEP requirements include limitations on the volume of traffic which can be handled by a switching center, which assures the Government continuous service; physical protection of Government information and security for all computer systems; and emergency backup network management. System requirements include a complex billing system with substantial hardware and software costs. Many of these requirements involve maintaining additional personnel to allow the contractor to continuously meet contractual requirements. Taken together the Government's unique requirements provide levels of service above normal commercial service.

To assess these unique requirements, the FTS 2000 contractual, management and operational environment was compared with that of commercial service offerings. Values were established based on information on commercial contracting practices.

Question. Is this type of value assigned to other Federal procurement actions and if so, was the same formula used when you compared the FTS 2000 contract with commercial rates?

Answer. The Cost Effectiveness Comparison Acquisition Price Analysis prepared by the Cost Effectiveness Subcommittee of the Interagency Management Council notes that "while the value of some of the unique Government requirements can be calculated with precision, a number can be quantified only through the exercise of judgment". Therefore, in most instances the study contained a range of values rather than a single value.

Question. Was the value of the unique Government requirements included in your first—1988—look at FTS 2000 and if so, what was the value of these requirements in 1988 and how does that compare with the most recent cost comparison?

Answer. No. The original FTS 2000 contracts were awarded based on full and open competition. The Government articulated its requirements in the RFP and evaluated the vendor proposals based on technical, management and cost factors. GSA selected the lowest price and the best technical offers.

Question. Why do you continue to include the value of the Government requirements in your comparison—wouldn't the value of these requirements have been satisfied in the first couple of years of the contract?

Answer. While the unique Government requirements may have resulted in up-front loading of some costs to start up the system, many of the requirements are continuous. Therefore, the costs and values must be assessed over the life of the contract.

Cost Effectiveness Study: Need for Continued Study

Question. The 1993 Appropriations Act, required a cost effectiveness study on FTS 2000 be submitted by March 1, 1993. The 1994 budget request included the requirement to submit another study by July 31, 1994. What is the benefit of this requirement?

Answer. The reporting requirement in the 1994 budget request was included to ensure that the Congress is periodically informed on the cost effectiveness of the FTS 2000 program. In particular, this report was intended to show whether the PAPCap mechanisms, which went into effect in April, 1993, are working as intended to maintain FTS 2000 prices below the lowest equivalent commercial prices.

Question. Since you have already submitted one study that claims a FTS 2000 cost benefit to the Government of at least four percent less than commercial prices, why the need for a July 31 report?

Answer. This is a very dynamic market therefore, GSA will be conducting PAPCap evaluations every three months. As indicated in the response to the previous question, this report is intended to show whether the PAPCap mechanisms

which went into effect in April 1993, are working as intended to maintain FTS 2000 prices below the lowest equivalent commercial prices.

Question. Is the cost and the effort to make this report worth the benefit realized? If not, should this reporting requirement be continued?

Answer. There is an insignificant added cost to provide the report to the Congress. Further, GSA had always intended to evaluate the effectiveness of the PAPCap mechanism. There is every reason to believe that the PAPCaps will be effective in ensuring that FTS 2000 service prices will be kept below the lowest equivalent commercial prices.

Price Controls

Question. What has been the result of contract requirement for a Price Redetermination/Service Reallocation (PR/SR) at the five-year mark?

Answer. The FTS 2000 contract PR/SR requirement enabled the Government to successfully conduct an internal price recompetition between the two FTS 2000 contractors and achieve aggressive price reductions which are estimated to save the Government more than $450 million over the remaining six years of the 10-year contracts. The rate reductions became effective on December 7, 1992.

Question. What are Publicly Available Price Caps (PAPCaps) and how do they affect the prices paid by GSA under the contract?

Answer. The PAPCaps ensure FTS 2000 prices remain below the lowest comparable commercial prices of any major carrier through direct comparison with the current telecommunications marketplace. The PAPCaps apply individually to each of the FTS 2000 services, with the exception of Dedicated Transmission Service where PAPCaps are applied for each circuit speed.

If prices in the commercial marketplace decrease for a given service or circuit speed, PAPCap will ensure the FTS 2000 price for that service or circuit speed remains below the lowest comparable commercial price. If commercial prices rise, the FTS 2000 prices are capped at the levels set in PR/SR.

Question. When will these PAPCaps be implemented?

Answer. The PAPCap contract modifications are in place with both FTS 2000 contractors, AT&T and Sprint. The PAPCap analyses are performed quarterly, with the first Government analyses due to the contractors in April 1993. Price adjustments required by the PAPCap analyses will be reflected in the invoices for June 1993 usage.

Question. What is the total estimated cost savings of these PAPCaps and have the savings been incorporated in the fiscal year 1994 President's budget?

Answer. The overall PAPCap cost savings will vary quarterly based on the cumulative extent of movements in the lowest commercial prices for each of the FTS 2000 services and circuit speeds. It is too early to project PAPCap cost savings. We are currently in the process of exercising the first PAPCap analysis.

Question. What affect does the mandatory use provision have on the PAPCap?

Answer. The PAPCaps are unique contract provisions which protect the Government from price fluctuations in the marketplace during the period of the FTS 2000 contracts. The existence of mandatory use requirements was a significant factor in the Government's success in obtaining the PAPCap provisions.

Question. Have the vendors indicated whether they would voluntarily operate under the recently signed PAPCaps if the mandatory use provision was not included in the fiscal year 1994 Appropriations Act?

Answer. The PAPCap agreements signed with the FTS 2000 contractors indicate that the agreements remain in effect through the end of the second contract period so long as mandatory use in the FIRMR remains in full force and effect. If mandatory use in the FIRMR does not continue, then the contractors can elect to continue the current PAPCap agreements; otherwise, the PAPCap modifications in place prior to the current agreements will be operative.

Competitiveness of FTS 2000 Prices

Question. Having completed the Price Redetermination and negotiated new Price Caps for all services, do you believe that FTS 2000 prices will remain competitive with the best commercial prices over the reminder of the FTS 2000 contract?

Answer. There is every reason to believe that the currently available mechanisms will be effective in ensuring that FTS 2000 service prices will be kept below the lowest equivalent commercial prices.

Question. How do you explain the claims made by other vendors that they can offer better prices for FTS 2000 services than what GSA is paying?

Answer. In addition to the unique Government requirements, FTS 2000 requires ubiquitous coverage of the United States including certain territorial possessions, and does not define specific quantities to be bought other than minimum revenue guarantees. Better commercial prices can sometimes be obtained for geographically limited contracts or contracts which define very specifically the items to be bought. There are no commercial contracts exactly like FTS 2000, even absent considerations of the National Security and Emergency Preparedness (NSEP) and other unique Government requirements.

Question. In your March 1 study on the Cost Effectiveness of the FTS 2000 program, you state that it is the world's largest private telecommunications system. If that is the case, why can't the Government obtain prices across the board for all services which are far below commercial rates? Shouldn't the Government's large market share play a role in negotiations?

Answer. Mandatory use ensures the economies of scale necessary to obtain and maintain low prices. GSA found that FTS 2000 prices in aggregate, are at least as good as the best equivalent commercial prices without considering the value of unique Government requirements. When the value of unique Government requirements is factored in FTS 2000 is significantly less expensive than equivalent commercial offerings. These findings lead to the conclusion that the FTS 2000 procurement is producing prices that allow the Government to satisfy its requirements for such procurement in the most effective manner.

Use of FTS 2000 by Federal Agencies

Question. What proportion of the total Federal Telecommunications Business that could be procured under the existing FTS 2000 contract is actually being procured with this contract?

Answer. The Government spends approximately $950 million for long distance telecommunications of all types. FTS 2000 receives approximately $500 million. Therefore, FTS 2000 receives about 53 percent of the agency traffic. The remainder is 47 percent.

Question. What is the reason for not procuring 100 percent of the Federal Telecommunications Business with FTS 2000?

Answer. FTS 2000 is a common user service. It was not intended to be all things to all people.

The 47 percent mentioned previously is made up of:

Service requirements specifically exempted by law (i.e., DOD Warner exempt requirements);

Services not yet transitioned to FTS 2000 due to pre-FTS 2000 contractual arrangements;

Non-mandatory users such as the Federal Deposit Insurance Corporation, the Resolution Trust Corporation, and the Federal Reserve;

Agency operational systems (such as the Federal Aviation Administration), and the Power Marketing Administration's of the Department of Energy;

Services which the FTS 2000 does not currently provide such as certain enhanced packet service.

Question. Which Agencies are not fully utilizing FTS 2000? Why aren't they using it?

Answer. All agencies under the purview of the Brooks Act are using FTS 2000, some are not using it for all their intercity telecommunications services. All traffic that can be served by FTS 2000 is being served or being transitioned where cost effective and when new services become available on FTS 2000. We are working continuously with agencies, both mandatory and nonmandatory users, to enhance the services and features of the FTS 2000 contracts to better meet agency requirements.

The old FTS provided only voice service. FTS 2000 provides an array of voice, data and video services. In addition, to transitioning FTS voice locations to FTS 2000, many new locations have been added and new services are being continuously installed. As an example, much of the Department of Defense was not a user of FTS, but currently about 85 percent of the military bases use FTS 2000 for their domestic intercity voice traffic. Computer communications requirements have transitioned more slowly, because they are much more difficult to implement than voice services. Many departments and agencies with computer intensive operations (Federal Aviation Administration, Department of Veterans Affairs, the Department of Treasury and others) had long-term contracts in place when the FTS 2000 was awarded.

Where it was in the Government's interest, these contracts are being permitted to continue to their scheduled end or until it is cost effective to terminate them.

Future of FTS 2000

Question. What plans do you have for the follow-on to FTS 2000 when the contract expires in 1998?

Answer. We have just begun the process of investigating agency needs and options for providing Government telecommunications services following expiration of the FTS 2000 contracts. Two interagency groups have been established, one to develop agency requirements and the other to study strategies and options. This summer, we will be inviting comments from all affected parties on the whole range of issues affecting follow-on services. In the fall, we plan to hold a public conference to encourage a full and open discussion of those issues.

Question. Would a similar procurement strategy and contract structure offer continued benefits?

Answer. At this time we are investigating the future direction of telecommunications technology, market offerings, applications, regulation and other factors which will affect follow-on services to FTS 2000. As previously indicated an interagency working group will be pursuing these questions over the next year.

Data Not Included in Cost-Effectiveness Study

Question. Why was pricing information provided by WilTel for the Cost Effectiveness Comparison Study not used in the price analysis?

Answer. The pricing information provided by WilTel was not included in the Cost Effectiveness Comparison Study because it did not meet the criteria for inclusion in the price analysis. WilTel provided prices for a limited number of dedicated circuits between specified locations. Since WilTel's data was not nationwide in scope it did not meet the criterion of ubiquitous publicly available prices.

Prohibition on Enhanced Services

Question. There have been allegations that FTS 2000 prevents Federal users from gaining access to enhanced services and taking advantage of technological innovations. Why is GSA doing this?

Answer. We are continuously modifying the FTS 2000 contracts and enhancing services to meet agency needs. In those cases where FTS 2000 can not satisfy an agency's requirements for technologically enhanced or innovative services, it is our policy to grant an exception and to permit the agency to acquire service elsewhere, even if an FTS 2000 contract modification is planned. GSA has allowed exceptions for requirements such as high bandwidth and high speed switched services, enhanced packet switching services, high reliability needs, and other requirements.

Reopening Procurement Process

Question. What is the reasons that the FTS 2000 procurement cannot be opened up to allow other vendors parts of the services?

Answer. The predecessor Federal Telecommunications System (FTS) came into existence in 1963 in response to the Cold War environment and events such as the Cuban missile crisis. It was intended to provide for emergency communications among civilian government agencies at times when the public switched network might be overloaded or otherwise unavailable. The initial FTS was provided solely by AT&T in a regulated monopolistic environment. However, at the same time a series of events was occurring which eventually lead to deregulation and divestiture in the early 1980's. The result was that FTS costs began to increase dramatically. In an effort to cut costs, individual circuits were subjected to competition. Neither the government nor the vendors were well equipped to deal with the competitive environment and the resulting network management problems. It was this set of circumstances which caused GSA to rethink how telecommunications services should be provided to Federal users. The course of action ultimately chosen was FTS 2000.

The FTS 2000 Request for Proposals (RFP) requested services for the FTS 2000 program which would replace the FTS and provide additional enhanced intercity telecommunications capabilities to the Federal Government. The contractors were to be responsible for all aspects of the implementation and operation of FTS 2000 over the 10 year life of the contracts. The government awarded the two FTS 2000 contracts after evaluating the technical management and cost factors of the vendor proposals. Fragmenting the government's telecommunications requirements would

hinder the government's ability to achieve the economies of scale necessary to keep prices low and allow the government to satisfy its total needs in the most cost effective manner.

THURSDAY, APRIL 22, 1993.

UNITED STATES GENERAL ACCOUNTING OFFICE

WITNESSES

JACK L. BROCK, JR., DIRECTOR, GOVERNMENT INFORMATION AND FINANCIAL MANAGEMENT, INFORMATION MANAGEMENT AND TECHNOLOGY DIVISION

LINDA KOONTZ, ASSISTANT DIRECTOR, GOVERNMENT INFORMATION AND FINANCIAL MANAGEMENT, INFORMATION MANAGEMENT AND TECHNOLOGY DIVISION

JEROLD COHEN, ASSISTANT GENERAL COUNSEL

INTRODUCTION

Mr. VISCLOSKY. I would like to call Mr. Jack Brock of the General Accounting Office.

Mr. BROCK. Good morning. I am accompanied by Linda Koontz, an assistant director of my group who has been doing FTS 2000 work for a long time and by Jerold Cohen, Assistant General Counsel, also involved in the FTS 2000 program for a long time. I know you have had a long morning here and I am prepared to briefly summarize my statement.

Mr. VISCLOSKY. Your entire statement will be entered in the record.

SUMMARY STATEMENT OF MR. BROCK

Mr. BROCK. The Committee asked us to do two things, to comment on the current status of the FTS 2000 program and to comment on the need to continue mandatory use language in the appropriation act. It is clear from what I heard this morning that pretty much everyone will disagree with what we are going to say about mandatory use.

As far as current status, back in September 1991, we issued a report on the FTS 2000 program which caused quite a bit of consternation. We said that the government wasn't getting a very good deal on FTS 2000. Prices were considerably higher than commercial prices.

We testified several weeks after that before Senator Glenn's committee and repeated that message, but we added a caveat. We said we believed that GSA had a good strategy for its price redetermination, service reallocation program and that if that strategy were followed, it could lead to acceptable prices. GSA followed that strategy.

Essentially the PR/SR is a way for each vendor to bid against the other for their traffic revenue. It turns out the relative traffic revenue stayed the same, but there were significant reductions in prices. Most services were, at that point in time last September, at or below published commercial rates.

GSA didn't have the ability, nor did we, to look at private rates. The PR/SR resulted in a cost reduction of about $450 million over the life of the contract. That is compared with the old FTS 2000 contract. That is not compared with commercial rates, but with the old FTS 2000 rates in place before PR/SR.

Just as important, at the same time, GSA negotiated a price control mechanism commonly referred to as a PAPCAP which I believe will be effective in keeping prices at or below published commercial prices.

So, for the price redetermination, service reallocation, we believe that GSA did a good job. They were successful in carrying out their strategy.

Turning to mandatory use, it has always been the government's strategy to require mandatory use from day one for most government telecommunications services. I think, as Mr. Scott discussed earlier, there are some DOD services and some other services that are not a part of the mandatory use requirement. It was viewed originally as a necessary mechanism to assure adequate traffic volume as an incentive to vendors to bid on the contract and to offer lower prices.

For most of the term of the FTS 2000 contract this subcommittee has attached a mandatory use provision to the appropriations language. However, Section 111 of the Federal Property and Administrative Services Act, the Brooks Act, as amended, gives GSA the authority to prescribe regulations for acquiring ADP equipment and services including telecommunications services.

As such, the administrator of GSA has issued a provision in the FIRMR to implement the mandatory use requirements of the FTS 2000 contracts. The Administrator has also used this authority to enforce the policy that these regulations are separate and independent from the mandatory use language in the Appropriations Act.

The lapse of the provisions in the Appropriations Act would neither impair the authority of the administrator to issue regulations nor limit the effectiveness of the FIRMR mandatory use provision.

That concludes my answer to your two questions.

ADDITIONAL REMARKS ON FTS 2000

I would like to remark on two points. First, the focus on today's hearings has been on price and mandatory use. Ultimately the focus of government telecommunications services should really be on how well agencies are using telecommunications services to meet their mission objectives.

Telecommunication services are truly the lifeblood of most agencies, and the opportunity exists, particularly if we go into reengineering, which is the common buzz word now, that effective telecommunications services are going to be essential to that. I think appropriate attention needs to be paid to that as well as to areas such as prices and mandatory use.

The other point I wanted to make was that we thought that GSA didn't get off to such a good start on FTS 2000. We think that over the past year, they have made very important course corrections to the program, including the new PAPCAPs, the reduced prices, and the increased involvement with the user communities in making decisions that affect the program.

That concludes my statement. I would be pleased to answer questions.

[The statement of Mr. Brock follows:]

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Treasury,
Postal Service, and General Government
Committee on Appropriations
House of Representatives

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FTS 2000

Status and Mandatory Use

Statement of
Jack L. Brock, Jr., Director
Government Information and Financial Management
Information Management and Technology Division

GAO/T-IMTEC-93-5

Mr. Chairman and Members of the Subcommittee:

I am pleased to participate in the Subcommittee's hearing on the governmentwide FTS 2000 telecommunications program. As you requested, my testimony today will address the current status of the FTS 2000 program, and whether a mandatory use provision is needed in the 1994 Treasury, Postal Service, and General Government Appropriations Act to ensure compliance.

GSA has lowered FTS 2000 prices over the past year. As a result of GSA's recent recompetition (Price Redetermination/Service Reallocation), FTS 2000 prices are now generally competitive with known commercial prices. Further, GSA has negotiated new mechanisms--PAPCAPs--which should ensure that FTS 2000 rates remain competitive.[1] As for mandatory use, a provision in appropriations language is not necessary to ensure compliance since GSA already has sufficient authority to enforce this requirement.[2]

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[1] Publicly Available Price Cap (PAPCAP) agreements are contract modifications, voluntarily agreed to by the two FTS 2000 vendors, that define how and when FTS 2000 price reductions should occur. These reductions are based on periodic comparisons of FTS 2000 prices with publicly available prices.

[2] The government's policy of mandatory use means that federal agencies must use FTS 2000 services for procurements subject to Section 111 of the Federal Property and Administrative Services Act (40 U.S.C. 759, popularly known as the Brooks Act) unless GSA grants an exception based on its determination that (1) the agency's procurement requirements cannot be satisfied by the FTS 2000 program, and (2) the agency procurement would be cost-effective and would not adversely affect the cost-effectiveness of the FTS 2000 network.

BACKGROUND

FTS 2000 is providing voice, data, and video telecommunications services for the federal government through 1998 at an estimated total program cost of $10 billion to $12 billion. As stipulated in the original contracts, awarded to American Telephone and Telegraph Co. and U.S. Sprint in 1988, GSA can target up to 40 percent of each vendor's revenue for recompetition at the end of the fourth and seventh years of the contracts. These recompetitions between the incumbent vendors are intended to foster ongoing competition and ensure that FTS 2000 prices are at or below commercial prices.

GSA concluded the first recompetition in September 1992, and announced its decision that each vendor would retain its current share of the projected FTS 2000 revenue. The prices bid by each vendor became effective December 7, 1992. To further ensure that FTS 2000 prices remain competitive with commercial prices, GSA last December negotiated new PAPCAPs with both vendors covering all services. The first comparisons under these new PAPCAPs will be made this month.

A policy of mandatory use has been an integral part of the FTS 2000 program since its inception. This policy was intended to make bidding attractive to potential vendors by providing high levels of government telecommunications traffic. Additionally,

it was believed that mandatory use would ensure the economies of scale and scope necessary to provide telecommunications services at prices advantageous to the government. As such, the request for proposals for the FTS 2000 contracts, as well as the contracts themselves, provide for mandatory use. Further, the Administrator of General Services, under his authority granted by the Brooks Act to regulate automated data processing and telecommunications procurements, added a provision to the Federal Information Resources Management Regulation (FIRMR) implementing the government's policy of mandatory use. Finally, Congress has reinforced this policy by including a mandatory use provision in its annual appropriations act since fiscal year 1989.

CURRENT STATUS OF THE FTS 2000 PROGRAM

In September 1991 we reported that FTS 2000 prices were well above commercial prices.[3] In a later report we endorsed GSA's strategy of conducting the recompetition with an end objective of obtaining telecommunications services at rates below that of available commercial services.

In conducting the recompetition, GSA followed a well-defined, appropriate process that resulted in greatly reduced prices which, according to GSA, will save the government an estimated

[3] FTS 2000: GSA Must Resolve Critical Pricing Issues (GAO/IMTEC-91-79, Sept. 11, 1991).

$450 million over the final 6 years of the contracts when compared with FTS 2000 prices in place before the recompetition. At the time of the recompetition, GSA found that the proposed FTS 2000 prices were generally below commercial prices. We reviewed these commercial cost comparisons and found GSA's methodology and conclusions to be reasonable. One caveat, however, should be noted. GSA could only compare FTS 2000 prices with published tariffs, commercial contracts filed with the Federal Communications Commission, and other government telecommunications contracts. GSA acknowledges that lower prices may be available to very large private users, but information about those contracts is not publicly available.

On March 1, 1993, GSA released a report to the Congress on the cost-effectiveness of the FTS 2000 program, and found that FTS 2000 prices, in aggregate, are still at least as good as the best equivalent commercial prices. However, in a few instances, FTS 2000 prices for certain services were found to be above commercial levels. GSA attributed this condition to the fact that for these services, commercial prices have dropped rapidly during the few months between the recompetition and these latest cost comparisons. GSA also pointed out that the services for which FTS 2000 prices exceed commercial prices account for less than 10 percent of projected FTS 2000 business, and asserted that "there is every reason to believe that the [new] PAPCAPs will be

effective in ensuring that FTS 2000 service prices will be kept below the lowest equivalent commercial prices."

As discussed in our recent report, we recognized that price comparisons made after the recompetition but before the first calculation of the new PAPCAPs could reveal some FTS 2000 prices to be above commercial prices.[4] This is now the case. However, we agree that the new PAPCAPs, if implemented as planned, should correct any current price disparities and ensure that FTS 2000 prices remain competitive with commercial prices in the future.

MANDATORY USE

I would now like to address the question of whether a provision regarding mandatory use of FTS 2000 should be included in the 1994 Treasury, Postal Service, and General Government Appropriations Act.

In February 1992 we reported to this Subcommittee that the government's mandatory use policy should continue to be reinforced by including a provision in the appropriations act for fiscal year 1993.[5] We believed that attempts to change the appropriations act provision at that time, when the recompetition

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[4] FTS 2000: GSA's Price Redetermination Yields a Reasonable Decision and Lower Prices (GAO/IMTEC-93-22, Mar. 4, 1993).

[5] FTS 2000: Mandatory Use (GAO/IMTEC-92-33R, Feb. 28, 1992).

was ongoing, could have disrupted the process and jeopardized GSA's efforts to obtain favorable prices. Now that the recompetition has been successfully completed and prices have been reduced to commercial levels, the risks associated with not including a provision in future appropriations acts appear to be minimal. GSA already has sufficient legal authority to sustain the government's policy of mandatory use. As a result, we believe that it is unnecessary to include a mandatory use requirement in the 1994 appropriations act.

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Mr. Chairman, GSA has obtained competitive FTS 2000 prices. We are continuing to review the program but are now focusing on how the government should best obtain telecommunications services after the current contracts expire. We are evaluating alternative procurement strategies as to their capabilities to provide state-of-the-art, cost-effective, high-quality telecommunications services to the government. We intend to report on these issues within a year.

This concludes my remarks. I will be happy to answer any questions you or other members of the Subcommittee may have at this time.

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MANDATORY USE

Mr. VISCLOSKY. You addressed the price and mandatory use. In terms of the report that you submitted, was there any investigation or review of potential expansion of the definition of the contract by GSA?

We had a discussion with a number of the vendors today on the interpretation of the contract FTS 2000 being expanded past the letter of the law.

Mr. BROCK. Not really. My comments have been within the structure of the existing contract. I would like to add however, and Don Scott mentioned this, that for Senator Glenn we are conducting a study looking at what types of services or alternatives should be available to the government after FTS 2000 is concluded in 1998. That would include a variety of alternatives.

We intend to examine the pros and cons of each alternative. Right now, we expect the study to be completed sometime in the fall, and issues like you mention will be addressed in that report.

Mr. VISCLOSKY. You mentioned in your testimony that it is your belief that, whether the mandatory use language is included in this year's appropriation bill or not, GSA does have authority to proceed. I understand your conclusion.

Mr. BROCK. That is correct.

Mr. VISCLOSKY. What do you perceive the problems to be if mandatory use language is not included in the appropriations bill? Mr. Scott talked about perception.

Mr. BROCK. I think there could be issues of perception, but I also think that if GSA maintains a tough line, as it has in the past, these areas of perception can be overcome. Agencies now may not want to participate in FTS 2000, and they may feel that way regardless of whether there is a law that you pass or whether the Brooks Act is still in effect.

I don't think that that changes their perceptions. I think the enforcement mechanism is there, and has been exercised reasonably effectively.

Mr. VISCLOSKY. Do you think there would be any detrimental impact if the mandatory use language is not included?

Mr. BROCK. I don't have a good way of measuring the psychological impact that has been alluded to as to whether or not that would have an effect on agencies and on their willingness to continue with the FTS 2000 program.

Mr. VISCLOSKY. You mentioned enforcement projects and endeavors of the GSA. Do you think those have been successful because of their authority under current law or because of the added layer of the appropriations language? Has the appropriations language had something to do with the effectiveness of the enforcement?

Mr. BROCK. I have trouble separating that, but I believe under the Brooks Act and the implementation of that act through regulations in the FIRMR, GSA's authority could have been exercised quite adequately.

Mr. VISCLOSKY. Mr. Istook.

Mr. ISTOOK. I am still not certain I understood your answer on the question if mandatory use language were not contained in the appropriation bill, what effect if any you foresee.

Mr. BROCK. If you could let me repeat something I have read. These existing FIRMR regulations are separate and independent of the mandatory use language in the Appropriations Act. The lapse of the provision in the Appropriations Act would neither impair the authority of the Administrator to issue regulations nor limit the effectiveness of the FIRMR mandatory use provision.

Mr. ISTOOK. The fact that it would not impair the authority of the Administrator is talking about people's authority, but still not talking about the ultimate effect on which vendors are utilized and what are the costs and what are the potential savings to the taxpayers.

Do you have any projections, and I understand that they would just be projections, upon what would be the result, not change in authority, but the result if the mandatory use language were not included in the bill?

Mr. BROCK. The result—that would be speculative on my part. I think there would be——

Mr. ISTOOK. It would be a more informed speculation than some.

Mr. BROCK. I think that GSA would get a bit more pressure from some of the agencies. I think if they held their resolve, that the result would be the same as it is now, that they could enforce the mandatory use provision.

Mr. ISTOOK. You believe the result would be that the agencies would still utilize the services of AT&T and Sprint rather than going to a competitor?

Mr. BROCK. That is correct.

Mr. ISTOOK. There was mention in some testimony that that might open it to political pressure from other agencies who are responsive to their own people that they are involved with politically, whether it be a Cabinet officer or someone with authority over agencies and involvement in the political process.

Do you foresee that there would be political pressures that would be brought upon agency heads or persons with contracting decision-making authority to use a different vendor?

Mr. BROCK. Well, I believe that those pressures are probably already being brought to a certain extent, and they could well increase. I don't know. One of the things that you need to consider is that if you eliminated mandatory use, and if there were no provision in the FIRMR nor in the law, that there would be a lot of trade-offs to be considered. Even in the event that you thought you would get lower prices, there are considerable expenses that need to be balanced against that in terms of running new procurements, and in terms of transitioning agencies from one service to another. Those are factors that also need to be considered.

Mr. ISTOOK. Can you qualify those factors? What does it mean if you have to have someone in different agencies that is keeping up with the technology through a whole spectrum of vendors, having to solicit multiple RFPs and otherwise engage actively in a procurement process and have transfer expenses mentioned?

Mr. BROCK. I think we could provide you with an estimate.

Mr. ISTOOK. I would appreciate that. No other questions. Thank you.

[The information follows:]

Costs associated with procuring communications services and making the transition from existing services are significant. For example, the Departments of Veterans Affairs (VA) and Treasury—both of which have recently completed or are in the process of completing a major procurement for communications services—have estimated their costs associated with procuring communications services to be approximately $10 million and $5 million, respectively. The agencies' estimates include costs for both agency staff and contractor support. Further, it took VA approximately 5 years and Treasury about 3 years to complete the procurement process.

In preparation for last fall's FTS 2000 price redetermination/service reallocation process, agencies estimated their costs for moving traffic from one FTS 2000 network to the other. VA and Treasury estimated their transition costs to be $12.9 million and $12.1 million, respectively. The majority of these costs were for agency staff associated with activities such as determining the need for contractor support, implementing necessary equipment and software modifications, and training agency staff to use the new network.

IMPACT OF BROOKS ACT ON MANDATORY USE

Mr. VISCLOSKY. Chairman Brooks and Chairman Conyers testified this morning and strongly supported inclusion of the mandatory language in the appropriations bill. In terms of your assertion today on behalf of GAO, you say that Mr. Brooks' legislation already gives GSA the authority that they need.

Would you want to comment on the fact that the Chairman of the Committee that drafted the legislation feels that the mandatory language ought to be included?

Mr. BROCK. I would certainly hesitate to comment on Mr. Brooks' comments this morning.

I really hesitate to speculate on what he was thinking about when he made them. I was not here at the time. I would imagine that Mr. Brooks would want all the reinforcement that he could get to support mandatory use, and having this Committee support that and having it included in the legislative language would add further support.

PRICE CONTROLS

Mr. VISCLOSKY. Previous witnesses have claimed that there are vendors who believe they can provide the services at less cost to the government than they are now receiving under the FTS contract. How do you explain these claims?

Mr. BROCK. I think it is a claim. I have no way of judging whether or not the claim has merit. I think it would be a very difficult process to gauge the effect of any savings that might be realized in terms of actual cost versus costs of transition or contract termination. Matters like that are costs of the procurement.

Mr. VISCLOSKY. With the quarterly review initiated by GSA, do you think that over the remainder of the life of the contract, the prices paid by the government will be competitive?

Mr. BROCK. I think they will be competitive with the lowest known commercially available prices.

VALUE OF PAPCAPS

Mr. VISCLOSKY. What do you think the value of the PAPCAPs are to the government?

Mr. BROCK. I think they are essential. During the first three years of the contracts, the PAPCAPs were not effective, not able to be used to drive down prices. The present mechanism in place now signed by both vendors and contract amended, appears to us to be effective. As other people mentioned, I think that has been applied now against the different rates, and if everything goes right, new prices should be in effect by June of this year.

Mr. VISCLOSKY. In terms of the testimony earlier, it was my impression that PAPCAPs were something new. You allude to their ineffectiveness during the first three years of the contract.

Ms. KOONTZ. There have been a couple of different mechanisms in place since the beginning of the contracts. There was one in the original contracts that was thought to be largely unusable. GSA later negotiated some substitute indexing arrangements with both vendors and those were fairly effective.

These represent, I would say, a quantum improvement. I think you are seeing continual refinement and improvement of their mechanisms for keeping prices competitive.

Mr. VISCLOSKY. In terms of the PAPCAPs that are in place today, they are new?

Ms. KOONTZ. Yes.

MANAGEMENT OF FTS 2000 CONTRACT

Mr. VISCLOSKY. The GSA recently completed a price redetermination and service reallocation. You issued a report on this recompetition which was favorable to the GSA's efforts.

In general, do you believe that this office has the expertise necessary to review the contract?

Mr. BROCK. Yes, I do. I think they have also been effective in utilizing the services of others in order to do these types of reviews. They have a consultant, MITRE, that does a lot of technical review and technical analysis. We rely on the MITRE analysis as well.

They have made very effective use of interagency committees, where they bring users in to participate in development analysis, look at alternatives, and participate in source selection. I think that over the past year, GSA has demonstrated a capability for doing the type of analysis necessary to stay on top of the program.

Mr. VISCLOSKY. Ms. Koontz indicated that the PAPCAPs were a quantum leap here in terms of control. There have been questions raised on the management skills that GSA has brought to this issue.

Do you think those management skills and practices are in place to make sure this continues to be an effective contract?

Mr. BROCK. The skills they have for reviewing the contracts, and the management of the program, have improved in several ways. One, we thought GSA had not effectively administered or tried to correct PAPCAPs during the first three years of the contract. We thought that they did not give adequate recognition to the prices being too high.

We think over the past two years they have changed that around. The most significant thing has been bringing the users, the agency officials, into the fold and having them participate in the decision-making process.

We are doing another assignment where we are looking at alternatives for FTS 2000. While agencies have some problems with the current program, they make very favorable comments about the management of the existing program.

COST-EFFECTIVENESS STUDY

Mr. VISCLOSKY. The administration has asked for another cost effectiveness study that would be completed July 31 of next year. We just had a cost-effectiveness report issued on March 1st. What would be your opinion about the need for another cost effectiveness study?

Mr. BROCK. I think that the Congress needs to continue to receive information on the cost effectiveness of FTS 2000. I don't know enough about how the study would be constructed, like to see if it would be overduplicative of the quarterly reviews that are done for the PAPCAPs. In fact, those reviews might substitute for that cost analysis.

But I do believe in principle that Congress should receive regular reports so that you can continue to exercise oversight over the rates and whether we are getting a good or bad deal.

Mr. VISCLOSKY. GAO has been involved in this issue for a long time and done a number of reports. As a matter of course, are you going to review the quarterly estimate?

Mr. BROCK. I am unsure right now. We will review the first one and see what the results are, see how they applied the methodology, see if it is consistent. I doubt if we would issue a report on that unless something was really strange.

Mr. VISCLOSKY. Mr. Istook?

Mr. ISTOOK. No, thank you.

Mr. VISCLOSKY. Mr. Brock, thank you very much. I thank all the witnesses for their appearance and patience today.

[Additional questions submitted for the record by the Committee and the answers thereto follow:

MANDATORY USE LANGUAGE

Mr. HOYER. DO YOU BELIEVE THAT THERE WOULD BE ANY DETRIMENTAL AFFECT ON THE CONTRACT OR THE PRICE CAPS IF THE MANDATORY USE PROVISIONS WERE NOT INCLUDED IN THE FISCAL YEAR 1994 APPROPRIATIONS ACT?

Mr. BROCK. The contracts and price caps (PAPCAPs) would be legally unaffected.

VALUE OF UNIQUE GOVERNMENT REQUIREMENTS

BACKGROUND: GSA'S MARCH 1 COST EFFECTIVENESS STUDY STATES THAT FOR A MAJORITY OF THE FTS 2000 SERVICES--SWITCHED VOICE SERVICE AND DEDICATED TRANSMISSION SERVICE--THE GOVERNMENT'S PRICE IS GREATER THAN OR EQUAL TO THE COMMERCIAL PRICE. HOWEVER, WHEN THE VALUE OF THE GOVERNMENT UNIQUE REQUIREMENTS ARE ADDED TO THE COMMERCIAL PRICE, THE FTS 2000 PRICES ARE AT LEAST 4 PERCENT LESS.

Mr. HOYER. HAVE YOU EXAMINED GSA'S "UNIQUE GOVERNMENT REQUIREMENTS" AND DO YOU BELIEVE THE BASIS FOR DETERMINING THE VALUE OF THESE REQUIREMENTS IS SOUND?

Mr. BROCK. We have not examined GSA's unique government requirements in depth, and as a result, cannot comment on the basis for determining these costs. However, it is important to note that while FTS 2000 prices for a few specific parts of services (e.g. T-1 data circuits) are above commercial prices, FTS 2000 prices in the aggregate are at least as good as the best published commercial prices, without considering any unique government requirements. In addition, the new PAPCAPs should ensure that FTS 2000 prices remain below the best equivalent commercial prices, without considering any unique government requirements.

Mr. HOYER. DO YOU BELIEVE THE VALUE ASSIGNED TO THESE REQUIREMENTS IS ACCURATE?

Mr. BROCK. We have not examined GSA's unique government requirements in depth. As a result, we cannot comment on the accuracy of values assigned to these requirements.

PRICE CONTROLS

Mr. HOYER. WHAT AFFECT DOES THE MANDATORY USE PROVISION HAVE ON THE PAPCAPS?

Mr. BROCK. The mandatory use provision in the appropriations act has no legal effect on the PAPCAPs. However, the FTS 2000 vendors agreed to the new PAPCAPs (that are now in effect)

contingent on continued mandatory use as required by the Federal Information Resources Management Regulation (FIRMR). If the FIRMR provision were to be eliminated, the old PAPCAPs could come back into effect.

Mr. HOYER. IN YOUR OPINION, COULD THE VENDORS VOLUNTARILY CONTINUE PRICE CONTROLS IF THE MANDATORY USE PROVISION WAS NOT INCLUDED IN THE FISCAL YEAR 1994 APPROPRIATIONS ACT?

Mr. BROCK. PAPCAPs (price controls) are contract modifications, voluntarily agreed to by the vendors, that define how and when FTS 2000 price reductions should occur. However, the FTS 2000 vendors agreed to the new PAPCAPs (that are now in effect) contingent on continued mandatory use as required by the FIRMR. Therefore, by their own terms, the new PAPCAPs remain in force during the second contract term so long as the mandatory use provision in the FIRMR remains in force. In contrast, since the mandatory use provision in the appropriations act has no legal effect on the PAPCAPs, the PAPCAPs would remain in effect whether or not the mandatory use provision in the appropriations act is continued.

STATEMENT OF THE HONORABLE WILLIAM F. CLINGER, JR.

before the

TREASURY, POSTAL AND GENERAL GOVERNMENT SUBCOMMITTEE
of the
HOUSE COMMITTEE ON APPROPRIATIONS
April 22, 1993

HEARING ON FTS2000

Chairman Hoyer, Congressman Lightfoot, members of the subcommittee: First, I want to express my sincere regret at being unable to join Chairman Brooks and Chairman Conyers in testifying before the subcommittee this morning. However, I very much appreciate the opportunity to submit for the record the following statement regarding FTS2000.

My early efforts as the Ranking Republican on the House Committee on Government Operations have been guided by the three overriding goals and beliefs: (1) We must improve the planning process used to decide how tax dollars are spent; (2) Agencies, departments and programs must be made accountable for showing that they produce results; (3) The Federal procurement process must allow agencies and departments to acquire what is needed to efficiently deliver services and benefits to the American public.

In working to advance these goals I have introduced legislation to institute a capital budget that will provide a comprehensive picture of investment programs across agency and program lines. To enhance accountability, Chairman Conyers and I have joined forces in introducing legislation (H.R. 826) to establish program performance measurements and standards. An original cosponsor of this bill is Appropriations Ranking Minority Member, Joe McDade. Finally, a comprehensive review of procurement procedures and requirements has been initiated in an effort to ensure that the procurement process does not become a goal in and of itself.

From the meetings and briefings I have received on the program, and based on the recent reports on the contract, I can only conclude that FTS2000 program is not only consistent with the above goals, but that it is an excellent example of a program that has been well-planned, has demonstrated quality performance, and has provided Federal workers with the tools necessary to meet the needs of American taxpayers.

Clearly, the FTS2000 program has had its share of controversies and problems. However, it is a program that has survived and flourished under a level of scrutiny unmatched by any other Federal procurement. Last October, the Committee on Government Operations approved and adopted a report entitled, "FTS2000: Management Reforms and Intensive Congressional Oversight Ensure Savings of $500

Million for the Taxpayers". The Committee found that "FTS2000 has become a success story, both in savings to the taxpayers and in quality telecommunications services for Federal employees.

The Committee's report was written prior to the completion of the contract's year-four price recompetition. That price recompetition has since been completed and has been found by GAO and others to have had a major impact on FTS2000 prices by significantly reducing the rates which the vendors charge for their various services. In essence, a good deal has become even better.

The conclusions of the Committee on Government Operations have recently been verified and supported by the findings of the Interagency Management Council Management Review of FTS200, GSA's report to Congress on the Cost Effectiveness of FTS200, and by GAO in its recent report to Senate Governmental Affairs.

Last year's Committee report called for the continuation of FTS2000 "mandatory use" statutes. There has been no subsequent evidence to suggest that this recommendation was ill-advised. In fact, the weight of subsequent evidence clearly supports the appropriateness and wisdom of continued "mandatory use" provisions.

Much of the success of the FTS2000 program can be traced to the vigilant and tireless oversight of Jack Brooks, John Conyers, Frank Horton, John Glenn, Ed Roybal, Frank Wolf and others. The challenge is not over. The success of the contract's remaining years will require continued oversight. At the same time, to ensure continued quality telecommunications service to Federal employees and customers we need to begin planning for life after FTS2000. I look forward to working with my colleagues on the Government Operations Committee and with members of the Appropriations Committee, in an effort to not only maintain the current quality of FTS2000, but to ensure that future systems remain a "good deal" for the American taxpayer. Thank you.

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WRITTEN STATEMENT OF
METROMEDIA COMMUNICATIONS CORPORATION

REGARDING FTS 2000 MANDATORY USE

SUBMITTED FOR THE RECORD

COMMITTEE ON APPROPRIATIONS
U.S. HOUSE OF REPRESENTATIVES
HOUSE TREASURY, POSTAL SERVICE & GENERAL
GOVERNMENT SUBCOMMITTEE

APRIL 22, 1993

WRITTEN STATEMENT OF
METROMEDIA COMMUNICATIONS CORPORATION

Mr. Chairman and Members of the Subcommittee:

Metromedia Communications Corporation ("Metromedia") appreciates the opportunity to submit this statement for the record today, as the House Treasury, Postal Service and General Government Subcomittee opens an important examination of the cost-effectiveness of the FTS 2000 Program and the need for continuing to enact annual appropriations legislation requiring "mandatory use" of the FTS 2000 contracts.

Metromedia's Position

Metromedia is submitting this statement today because the FTS 2000 program is still not working as originally intended. The recent General Services Administration Report to Congress on the Cost Effectiveness of the FTS 2000 Program is misleading and incorrect in several key areas. Furthermore, GSA's Report ignores many important caveats contained in its underlying Price Comparison Analysis, and reaches conclusions not justified by the facts. Most importantly, acceptance of GSA's Report without further scrutiny will not only lead to the incorrect conclusion that FTS 2000 prices are comparable to those available in today's competitive marketplace, but also have permanent adverse impact upon the evolution of competition for the Federal government's

intercity telecommunications service needs.

Three critical flaws exist in the GSA Report and its underlying Price Comparison Analysis:

1. Both incorrectly assume that the publicly available tariffed commercial prices of the big three interexchange carriers (i.e., AT&T, Sprint and MCI) accurately reflect the prices available to the Federal government in the competitive marketplace. Exclusion of the emerging nationwide carriers' competitive marketplace prices from the Price Comparison Analysis was erroneous and leads to an incorrect conclusion.

2. GSA's Report fails to consider the substantial costs incurred by the Federal government to establish and maintain the FTS 2000 Program, and to intiate FTS 2000 services. These costs include the substantial personnel and overhead costs of GSA's FTS 2000 organization; the costs of FTS 2000 support contractors such as Centel Federal Systems (now Cordant) and the Mitre Corporation; the costs of consulting firms and support contractors reviewing the management (i.e. Booz-Allen and Hamilton) and/or cost-effectiveness of the FTS 2000 program (Snavely, King & Associates, IDA); and the significant costs associated with continuous, detailed Congressional and General Accounting Office oversight of the Program. The Report also incorrectly excludes the service initiation and nonrecurring charges associated with transitioning services to FTS 2000, and the supply of new services. An accurate analysis of whether the FTS 2000 prices allow the Federal government to satisfy its interexchange telecommunication service needs "in the most cost-effective manner", which is the statutory requirement contained in Section 622 of Public Law 102-393, requires consideration of these costs.

3. Both the GSA and GAO Reports place undue reliance upon a complicated administrative mechanism riddled with flaws and exclusions (i.e., the PAPCAP) as a substitute for what the competitive marketplace does best: provide comparable current prices for comparable current services. The PAPCAPs negotiated by GSA with AT&T and Sprint are not only overly complicated, but exclude the most meaningful comparative competitive market prices from consideration. As a result, GSA is headed toward a repetition of the events of 1989-92, with substantial overpayments the end result in the 1993-1996 time period.

Metromedia submits that the only mechanism which will provide an accurate comparison of competitive market vs. FTS 2000 prices (for high-volume government services), ensure FTS 2000 prices remain equivalent to or below competitive market prices, and eliminate the need for continuous, detailed Congressional oversight, is separate full and open competitive procurement(s) of a meaningful portion (e.g., 10-20%) of the Federal government's intercity telecommunications services.

Metromedia's Interest in FTS 2000

Metromedia is one of the nation's largest nationwide interexchange telecommunications carriers. Since acquisition of ITT Communications Services, Inc. in 1989, Metromedia has invested more than $100 million in upgrading its nationwide telecommunications facilities to a fully digital, state of the art network. Metromedia has also been an aggressive competitor for the Federal government's switched voice and dedicated transmission (i.e., private line) intercity telecommunications services.

Beginning in early 1990, however, Metromedia has seen a substantial decline in the amount of Federal intercity telecommunication services obtained through the competitive market. Almost no Federal switched voice services have been put out for competitive proposals, in sharp contrast to the numerous competitive procurements conducted in the 1983-1989 period. Competitive Federal private line service procurements have also declined dramatically. As a result, Metromedia's revenues for

Federal intercity services have dropped by more than 66% from 1990 to 1992. This decline did not result from Metromedia's inability to provide service or price the service competitively, but rather the primary cause has been FTS 2000 mandatory use which transferred services competitively awarded to Metromedia to FTS 2000 at higher than market prices.

Metromedia recognizes a primary goal of the FTS 2000 program was to aggregate the Federal government's large intercity telecommunications service needs to obtain volume discount prices below those offered any other customer. Accordingly, if FTS 2000 had achieved this goal, Metromedia would have accepted, albeit reluctantly, its forced exclusion from the Federal marketplace. It would have been the logical result of efficient expenditure of taxpayers' resources. But while FTS 2000 has resulted in prices lower than the old FTS service, competitive market prices have consistently been lower than those available on FTS 2000. Throughout 1990-1992, with the assistance of its past and few remaining Federal customers, Metromedia has repeatedly compared its competitive prices offered to the Federal government with those available from FTS 2000, and has almost always found FTS 2000 prices to be above the competitive market. For switched voice services, Metromedia's prices have ranged from 10-20% lower than FTS 2000, and for dedicated transmission services such prices ranged from 17-38% below FTS 2000.

In spite of declining Federal revenues and new market opportunities, Metromedia nevertheless has not opposed the FTS

2000 program. Metromedia's consistently expressed view is that mandatory use, when combined with reliance on artificial substitutes for the competitive marketplace (i.e., PAPCAPs, Price Redetermination), leads to significant disparities between competitive market and FTS 2000 prices. Metromedia submits that no administrative price cap mechanism, and no "recompetition" which is limited solely to the incumbent vendors, provides an adequate measure of or accurate surrogate for current competitive market prices. PAPCAPs and price redetermination cannot replace true competitive market pressures.

Consistent with the foregoing, Metromedia's interest in this Subcommittee's hearing on FTS 2000, and action on FY 1994 appropriations legislation, remains in seeking to benefit the Government customer and the taxpayer, while retaining the opportunity to compete for a small but significant portion of the Federal intercity telecommunications marketplace.

The GSA Report

Within the foregoing context, Metromedia believed the requirement for an FTS 2000 cost effectiveness study, as contained in the Section 622 of the FY 1993 appropriations legislation, was a step in the right direction. Metromedia believed a fair and complete analysis would show the prices available in the competitive Federal marketplace, and lead inevitably to the conclusion that increased reliance on competition would benefit the FTS 2000 program, the Government customer, the taxpayer, and even the emerging nationwide

interexchange carriers. Instead, however, as summarized below, the Agency relies upon a seriously flawed price comparison analysis which "assumes away" the most competitive market prices and reaches the erroneous conclusion that alleged "unique government requirements" warrant paying higher than market prices. Furthermore, the GSA Report ignores both several important caveats contained in the Price Comparison Analysis and the substantial costs caused by the FTS 2000 program, in a rush to determine that FTS 2000 is cost effective.

1. Neither the Price Comparison Analysis nor the GSA Report Accurately Identifies Current Competitive Federal Market Prices for Switched Voice (SVS) and Dedicated Transmission (DTS) Services.

The GSA Report relied on two price comparison analyses of FTS 2000 and commercial prices. They were price comparisons made as a part of the Price Redetermination evaluation process (September 1992) and the analyses conducted by Snavely, King and Associates and IDA (late 1992) in support of the Cost Effectiveness Subcommittee of the Interagency Management Council (GSA Report, p. 4). In the first analysis, GSA used AT&T Contract Tariff No. 3 and AT&T Megacom 800 as the lowest priced equivalent commercial services for SVS, and unidentified but "PAPCAP eligible commercial tariffs" for the DTS rates (GSA Report, p. 4). In the second analysis, the supporting contractors used Option 72 of AT&T Tariff No. 12 and Megacom 800 as the lowest cost commercial alternative for SVS, and AT&T Contract Tariff No. 3, MCI Tariff No. 7 and Sprint Tariff No. 7 as the lowest priced commercial prices for DTS. While use of

these commercial tariffs may be consistent with the PAPCAP provisions of the FTS 2000 contracts, they do not accurately reflect market prices available currently to the Federal government.

In the marketplace for Federal government intercity switched voice telecommunication services, vendors rarely win a competitive contract by offering tariffed prices. Indeed, Metromedia supplied the contractors performing the price comparison analysis with competitive offers made to the U.S. Congress (which is exempt from FTS 2000 mandatory use) proposing to supply ubiquitous switched voice service at rates below the FTS 2000 composite prices and "lowest commercial prices" identified in the January 1993 Price Comparison Analysis. Only upon contract award would those rates then be separately tariffed. Moreover, continuing competitive market pressures and declines in the prices for local access services have resulted in even further reductions in Metromedia's SVS prices available to Federal customers, which reflect substantial discounts from Metromedia's standard tariff prices.

Metromedia also supplied the study contractors with analyses of calendar year 1991 and 1992 private line service rates for circuits provided to the Federal government pursuant to competitive procurements. These analyses showed that in both years Metromedia's competitive market prices for Federal

government services were substantially below (15-25%) Metromedia's tariffed monthly recurring charge rates. The competitive market nonrecurring charges also reflected discounts of at least 25%, and up to 80%, from Metromedia's tariffed rates. The importance of this information is that reliance upon tariffed prices to assess the cost-effectiveness of FTS 2000 prices for SVS and DTS leads to an erroneous conclusion. Published tariff prices do not reflect competitive market prices for intercity telecommunication services in the Federal marketplace, they are merely the starting place for proposing and/or negotiating lower rates. Moreover, even before implementation of FTS 2000 interexchange carriers competing for Federal contracts normally were forced to offer below-tariff prices in order to win a contract through the competitive process.

In sum, both before FTS 2000 and in the last four years, Metromedia (and ITT Communications Services) repeatedly participated in competitive procurements to supply intercity telecommunications services to the Federal government, and almost never offered published tariff prices. Metromedia's primary competitor(s) were not AT&T, or MCI or Sprint offering published tariff prices. Instead, it was other emerging nationwide interexchange carriers (e.g., Wiltel), or MCI and Sprint offering below-published tariff prices, that were Metromedia's primary competitors. Accordingly, it is both factually incorrect and misleading for the GSA Report and its underlying Price Comparison Analysis to assert that the tariffed prices of AT&T, or MCI and

Sprint, reflect the lowest priced alternatives to FTS 2000 in the competitive Federal marketplace.

2. Neither the Price Comparison Analysis Nor The GSA Report Provide A Complete And Accurate Assessment of the Cost Effectiveness of FTS 2000.

The Price Comparison Analysis of the Cost Effectiveness Subcommittee concedes that --

> As noted, this report does not address any costs to the Government other than acquisition prices. Specifically, it does not consider the Government's cost to award the contracts, initiate the system, or to administer it once it is in place. The study therefore does not purport to evaluate the total cost effectiveness of FTS 2000 to the Government. (Price Comparison Analysis, p. 3)

In addition, the Price Comparison Analysis notes that costs related to the transition to FTS 2000, reassignments within the system, and nonrecurring charges incurred as the system expands or reconfigures, are not considered.

The GSA Report to the Congress does not fill these gaps. The GSA Report contains no discussion or analysis of the substantial costs incurred by the Federal government to establish and maintain the FTS 2000 Program. These costs include the several hundred personnel and related overhead expenses of GSA's FTS 2000 office; the costs of GSA's FTS 2000 support contractors such as the Technical Analysis and Management Support (TAMS) subcontractor (i.e., Cordant, formally Centel Federal Systems) and the Mitre Corporation; the costs of consulting firms required

to review the adequacy of the management of the FTS 2000 Program (i.e., Booz-Allen & Hamilton) and/or assess elements of the cost-effectiveness of FTS 2000 services (i.e, Snavely, King and Associates and the Institute for Defense Analyses); and, the significant costs associated with the extraordinary and continuous Congressional and General Accounting Office, or Executive Branch (i.e, Office of Management & Budget), oversight of the FTS 2000 Program. These costs are not small. Review of the various estimates of FTS 2000 services costs (e.g. $367.4 million in the GSA Report; $415 million from FY 1993 in the Price Comparison Analysis), and comparison of them to only GSA's actual and estimated FTS 2000 Program costs of more than $554 million for FY 1992 and $589 Million for FY 1993, indicates the costs not considered in GSA's Report approach or exceed $150 million. Whatever the precise amount of such costs, it is clear they dwarf the $10.2-45.7 million annual estimates of the value of the alleged "unique government requirements". Yet these "UGRs" are taken into account by GSA in its Cost Effectiveness Report, while the unique costs caused by FTS 2000 are not.

Finally, these costs are apparently not offset by reduced overhead costs in the FTS 2000 customer agencies. Testifying before the Senate Governmental Affairs Committee in October 1991, representatives of the Departments of Defense, Agriculture and Veterans Affairs explained that because FTS 2000 supplies transport services only, and not end-to end services, such

agencies had been forced to separately acquire equipment and wiring items necessary for end-to-end service, at an additional cost. Moreover, the Department of Agriculture noted that it had established a new Telecommunications Services Division to provide technical support services not available through FTS 2000.

In addition to exclusion of the substantial "unique costs caused" by FTS 2000, the failure of the Price Comparison Analysis and the GSA Report to assess transition and nonrecurring charges ignores how telecommunications services are priced by interexchange carriers. The FTS 2000 vendors and competitors such as Metromedia recover their costs of service through three basic pricing elements; monthly recurring charges, nonrecurring charges, and termination liabilities. The primary use of non-recurring charges and termination liabilities is to recover transition and service initiation charges. Furthermore, the use of these elements and their precise amounts depends upon the costs of providing services and competitive market conditions. As noted previously in this statement, competitive market conditions for Federal government services have resulted in substantial discounts or elimination of nonrecurring charges and termination liabilities. Moreover, these conditions pre-date the implementation of FTS 2000. Furthermore, the service initiation charges of the FTS 2000 vendors are substantial. As a result, the Price Comparison Analysis is seriously flawed when it excludes consideration of nonrecurring and transition costs. The GSA Report is also flawed when it fails to address these costs.

An accurate assessment of the competitive market prices for services comparable to FTS 2000, and the cost-effectiveness of FTS 2000, must consider these costs.

In summary, the Price Comparison Analysis, relied on heavily by GSA in support of its Cost Effectiveness Report to Congress, is not a complete and accurate assessment of either competitive market service acquisition prices, or the cost-effectiveness of FTS 2000. Exclusion of significant pricing elements such as nonrecurring or service initiation charges prevents an accurate comparison of FTS 2000 prices with comparable competitive market acquisition prices. GSA's failure to include unique costs caused by the FTS 2000 program, while relying heavily on the estimated value of alleged unique government requirements, also prevents an accurate assessment of the actual cost-effectiveness of the FTS 2000 Program. As a result, Metromedia submits that the GSA Report and the Price Comparison Analysis do not permit this Subcommittee to determine whether FTS 2000 prices allow the Federal government to satisfy its interexchange telecommunications service needs "in the most cost-effective manner", which is the statutory standard contained in Section 622 of Public Law 102-393 (the FY 1993 Treasury-Postal Appropriations bill).

3. The "New, Improved PAPCAP" Will Not Ensure That FTS 2000 Prices Remain Comparable With Competitive Market Prices.

The GSA Report extols the significant improvements achieved

in the new Publicly Available Price Cap (PAPCAP) mechanisms and concludes they "will force all FTS 2000 prices to remain below the best equivalent commercial prices." (GSA Report, p. 10). The Price Comparison Analysis of Snavely, King & Associates evaluates the new PAPCAP mechanism, and concludes it is "a significant improvement over the previous procedures and appears to resolve many of the data deficiencies identified in this report". (Price Comparison Analysis, p. 67). The significant improvements noted are the application of the PAPCAPs to all FTS 2000 services and each data speed under DTS; the capturing of "at least some of the effect of recent activity in the negotiated contract services"; quarterly calculations rather than semi-annual applications; and, the use of actual access configurations (Id.). The Price Comparison Analysis does concede, however; that the new PAPCAP mechanism "is not a complete guarantee of the lowest prices", and "cannot ensure the lowest FTS 2000 price when most of the corresponding commercial services are purchased under individually negotiated custom-designed contracts." (Price Comparison Analysis, p. 70).

GSA's claims should be viewed by this Subcommittee with considerable skepticism because the new PAPCAP is the third attempt at implementing a price cap mechanism that works. The original PAPCAP mechanism did not work, primarily because it was limited to the "publicly available tariffed offerings" of AT&T, Sprint and MCI, and applied only to switched voice services (SVS). After the GAO's Report of September 1991 identifying more

than $148 million in overpayments to the FTS 2000 contractors, price indices were GSA's first "new and improved" solution. This mechanism also failed because it did not include contract services where most price competition was taking place. Indeed, the Price Comparison Analysis recognizes that the price indices measured only price changes, and not price levels, and thus if initial FTS 2000 prices were above market prices they would remain so. (Price Comparison Analysis, pp. 65-66). Close scrutiny indicates that the third attempt at a PAPCAP will be no more successful than the first two.

Once again the new PAPCAP mechanism is effectively limited to the offerings of the "big three" interexchange carriers (i.e., AT&T, Sprint, and MCI). The new PAPCAP includes only the offerings of major carriers, which are defined as those providing ubiquitous availability of a service/circuit speed in all 48 states and all LATAs served by AT&T, MCI, and Sprint. In addition, the new PAPCAP is limited to "standard publicly available tariffed offerings" against which more than $12 million in annual orders have been placed. Finally, while government and commercial contract offerings are eligible for inclusion in the new PAPCAP, they too must meet the "major carrier" and "ubiquitous availability "standards, as well as involve an annual revenue commitment of at least $4.5 million. While GSA may believe this is a significant improvement, Metromedia submits it is not. While some emerging nationwide interexchange carriers

(e.g., Metromedia) do supply ubiquitous switched voice and dedicated transmission services, many such carriers also tariff their services on a city-pair, customer by customer or contract-by-contract basis. Moreover, DTS (i.e, private line services) are normally acquired by customers on a circuit-by-circuit or small package basis. The combined effect of the "ubiquitous availability" and "annual revenue" standards is that the new PAPCAP will again exclude virtually all service offerings of interexchange carriers other than AT&T, Sprint, and MCI, Yet, it is precisely these the carriers which are the most aggressive price competitors, and which were very successful in winning competitive contracts for Federal SVS and DTS needs before FTS 2000 mandatory use.

Numerous other constraints are contained in the new PAPCAP mechanism. AT&T's Tariffs 12,15, and 16 and FCC Contract Tariffs are not considered to be "standard publicly available tariffed offerings"; the initial publicly available prices for SVS and DTS must be calculated based upon a limited number of above market price tariffed offerings; the FTS 2000 vendors are entitled to one "peremptory challenge" each quarter of any contract offering which GSA seeks to include in the PAPCAP calculation; and, the continued existence of the entire mechanism is contingent upon the continued effectiveness, without any change, of GSA's regulations requiring mandatory use of FTS 2000. From Metromedia's viewpoint, when all of the constraints on the new

PAPCAP mechanism are considered, the FTS 2000 vendors have received quite a deal.

In summary, the new PAPCAP mechanism remains subject to the same serious weakness as its two predecessors: It does not take into account the most competitive market prices for services comparable to those supplied by FTS 2000. Moreover, because current FTS 2000 SVS and DTS prices are not reflective of the competitive prices available in the Federal marketplace, the new PAPCAP mechanism will not ensure that they are reduced to and remain at or below such levels. While the new mechanism may cure some of the data deficiencies noted by the Price Comparison Analysis, it will not cure the fundamental problem: the prices for nearly 96% of FTS 2000 services are not at levels equal to or below comparable competitive market services.

Conclusion

The GSA Report and its underlying Price Comparison analysis do not completely or accurately assess the overall cost effectiveness of the FTS 2000 Program, as required by section 622 of Public Law 102-393. Current competitive market prices for switched voice and dedicated transmission services comparable to FTS 2000 were not identified accurately in GSA's Report, and substantial costs were improperly excluded from consideration. The new PAPCAP mechanism also will not ensure that FTS 2000 prices will be reduced to levels at or below comparable

competitive market prices between now and the next FTS 2000 price redermination. Accordingly, before considering further whether to include any provision regarding FTS 2000 mandatory use in the FY 1994 Treasury-Postal Appropriations bill, this Subcommittee should require GSA to comply fully with the provisions of Section 622 of the FY 1993 Appropriations bill.

Statement of

LDDS COMMUNICATIONS, INC.

on

FTS2000 Mandatory Use

Before the

SUBCOMMITTEE ON TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT

APPROPRIATIONS COMMITTEE

U.S. HOUSE OF REPRESENTATIVES

April 22, 1993

LDDS Communications, Inc. submits this statement for the record of the April 22, 1993 hearing conducted by the Subcommittee on Treasury, Postal Service and General Government of the Committee on Appropriations to examine the current "mandatory use" provision which prohibits Executive Branch agencies from procuring telecommunications services available under the FTS2000 program from non-FTS2000 suppliers.

LDDS is the fourth largest U.S. long distance telephone company with projected 1993 revenues of about $1 billion. Based in Jackson, Mississippi, LDDS is a publicly held company and serves customers throughout the continental United States (48 states). LDDS operates a hybrid network of owned and leased digital fiber optic transmission facilities. LDDS has invested heavily in state of the art digital switching equipment. LDDS offers basic switched voice services, private lines, 800 services and more, including high speed data transaction networking. While LDDS was not in a position to bid for a nationwide government contract in the mid 1980s, LDDS provided long distance services to several federal government agencies in Mississippi until those accounts were terminated without competitive bidding pursuant to the "mandatory use" policy.

LDDS does not oppose the FTS2000 contract generally, and applauds Chairman Jack Brooks for his success in establishing dual

vendor procurement. Today, many large commercial users employ a multiple vendor strategy. The pre-FTS2000 sole supplier environment was clearly a bad deal for the federal government. FTS2000 is an improvement. However, the inclusion of "mandatory use" language in the FY 1994 appropriations legislation is unnecessary and promotes a less competitive environment than might otherwise obtain.

The General Services Administration (GSA) has full authority under the Brooks Act to manage federal agency use of FTS2000 services. Elimination of legislative "mandatory use" language would not affect the power of the GSA to implement the same policy, but it would give the Administration the flexibility to manage federal telecommunications procurement in the best interests of the government. Cost saving technological innovations not available under FTS2000 are already available in the commercial marketplace (see Testimony presented by WilTel) and additional cost savings might also become available in this declining cost industry.

LDDS believes that Congressional oversight has been largely responsible for the $450 million in price reductions announced late last year for telecommunications services provided to federal government agencies pursuant to the FTS2000 contract. Continuing Congressional oversight is essential to ensuring that the federal government (and taxpayers) are not left behind while commercial market rate reductions continue in both the local access charge and long haul transport components of this declining cost industry.

Typical large commercial accounts cover a term of 3 years or so, with 5 years being the maximum. Ten year contracts are unheard of in this industry because they would not be a good bargain for the user. Without tough scrutiny and routine price redetermination, FTS2000 will quickly cease to be a competitive deal for federal government agencies.

However, "mandatory use" language is not essential to effective and continuing Congressional oversight of the FTS2000 contract. Congress can and should continue to supervise the GSA's efforts to ensure that FTS2000 is the best deal the federal government can get for telecommunications services.

The GSA study released last month compared FTS2000 rates only to publicly available tariffed rates of the largest 3 long distance carriers. Last fall, GSA's consultants, Snavely King & Associates solicited and obtained information on commercial and state government contracts from a variety of vendors including Metromedia, WilTel and LDDS. Apparently, that information was not used in the GSA's rate comparison analysis. In the future, GSA should use long distance rate information from all nationwide carriers in two ways: 1) in its price cap calculations, and 2) as part of a routine annual price redetermination process. Further, GSA could stage a competition for new or updated services that it seeks to bring within the scope of FTS2000, inviting all qualified carriers to bid.

Without fully competitive rates, the FTS2000 vendors will reap surplus revenues from which they can cross-subsidize their

offerings in the commercial marketplace.

Maximizing competition will force greater innovations in telecommunications technology available to the federal government and ensure the best deal from a cost perspective. Taxpayers deserve the best deal available from our highly competitive domestic vendors. Rates and services that are frozen across the board for all federal agencies under "mandatory use" regardless of evolving or specialized needs, might not always represent that best deal.

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